STAR MICRONICS CO., LTD.

One Step Closer to a Better World

ANNUAL REPORT 2022 (PDF Version)

For the year ended December 31, 2022

PROFILE

Since its establishment in 1950, Star Micronics Co., Ltd. has worked diligently to “generate the greatest impact from the least materials.” In order to achieve its aspirations, Star Micronics Co., Ltd. (the “Company”) has continued to deliver a steady stream of high-added-value products based on its core technologies of small-scale precision processing and assembly. Currently, the Company is engaged in the Special Products business including point-of-sale (POS) printers and the Machine Tools business including CNC automatic lathes.

From each of the sales and manufacturing perspectives, the Company is also actively engaged in global business development. Today, Star Micronics maintains a ratio of overseas sales to all sales of 90% and a ratio of overseas production to all production of 84%.

Working toward its next leap forward, the Company is leveraging its core technologies to promote a wide range of measures aimed at both creating new businesses and expanding existing businesses. Star Micronics is committed to contributing to the sustainable development of society as a leading small and medium-sized enterprise that seeks to excel on the world stage.

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Forward-looking Statements

Statements in this annual report with respect to Star Micronics’ plans, strategies and beliefs as well as all other statements that are not historical facts are forward-looking statements involving risks and uncertainties. These forward-looking statements rely on a number of assumptions concerning future events. The important factors that could cause actual results to differ materially from such statements include, but are not limited to, general worldwide economic conditions, competitive pressure on sales and pricing, and movements of currency exchange rates.

CORPORATE PHILOSOPHY

A company and its employees must constantly evolve through a process of steady development while also making every effort possible to improve the lives of each individual. This growth must happen together.

PURPOSE

Contribute to the sustainable development of society as a “leading small and medium-sized enterprise” that seeks to excel at the world stage

As a technology group, Star Micronics strives to provide new value through unique technologies that increase corporate value. At the same time, the Company will enrich the lives of its employees by providing a place where diverse engaged employees can contribute their best. Our goal as a group is to stand at the forefront of Japan’s small and medium-sized enterprises by generating a high level of productivity that rivals large companies as we contribute to the sustainable development of society.

MANAGEMENT POLICY

1. Do not pursue scale unnecessarily; position **capital efficiency** and **labor productivity** as primary evaluation indicators
2. Maintain the **ability to continuously offer new value** to society in response to changes in the environment
3. Constantly look to the global market for each business, and position “**global niche**” at the core of the Company’s strategy
4. **Invest in building an environment that allows employees to realize their full potential** and **the pursuit of unique technologies** from a long-term perspective, regardless of generational environment
5. Strive to become **a company that perpetually evolves** in harmony with society through its products and its people

ACTION GUIDELINES


Act with initiative and courage


Continue learning


Pursue technology


Focus on team productivity

HISTORY

1950 Star Seisakusho Co., Ltd.

Established in Tegoshi, Shizuoka (current Tegoshi, Suruga-ku, Shizuoka-shi) with a capital of ¥500,000, six employees and five automatic lathes, began the manufacture and sale of such products as wristwatch and camera parts as a small workshop factory.

1958 Began sales of automatic lathes.

After finalizing automatic lathes, began sales with the catchphrase, “automatic lathes made by users for users.”

1960 Tokai Seimitsu Co., Ltd.

Established Tokai Seimitsu Co., Ltd. in a partnership with Citizen Watch Co., Ltd.
Evolved as a factory specializing in the manufacture of watch screws.

1962 Began the export of automatic lathes.

Exported the first unit to the UK. Cultivated overseas sales channels and steadily increased market share.

1965 Changed the company’s name to Star Micronics Co., Ltd.

Absorbed Tokai Seimitsu Co., Ltd. and changed the company’s name to Star Micronics Co., Ltd.

1971 Began the manufacture and sales of electronic buzzers.

Widely adopted as a buzzer for clocks. Electronic buzzers extensively used in mobile phones as an incoming call sound source. Captured a large market share throughout the 1990s.

1976 Began the manufacture and sales of NC automatic lathes.

Began the manufacture and sale of NC automatic lathes. Incorporating innovative ideas and mechanisms, extremely well received for precision accuracy.

1979 Began the manufacture and sale of small printers.

Entering the digital printer field, began the manufacture and sale of products in a bid to respond to the information age and the widespread use of personal computers.

1981 Listed company stock on the Second Section of the Nagoya Stock Exchange.

Began the manufacture and sale of large-scale printers.

Entered the printer market in earnest.

1984 Listed company stock on the First Section of the Nagoya Stock Exchange. (Delisted in 2006.)

Built the new Kikugawa Factory.

Built a new machine tools production base in Kikugawa-cho, Ogasa-gun (current Kikugawa-shi), Shizuoka Prefecture.
Installed state-of-the-art rationalization system machines and contributed to improved productivity by enabling continuous automated operations.

1989 Established Star Micronics Manufacturing Dalian Co., Ltd.

Established a subsidiary in Dalian, China to engage in the manufacture of printers.
Became the fourth foreign company to enter the Dalian Economic and Technological Development Zone.

1990 Listed company stock on the First Section of the Tokyo Stock Exchange.

Listed on the First Section of the Tokyo Stock Exchange after 40 years of operation.
(Shift to the Prime Market from the First Section due to the market restructuring of the Tokyo Stock Exchange in April 2022.)

2000 Began the manufacture and sale of microphones, speakers and receivers.

Developed a full lineup of micro audio components for mobile phones, and aggressively cultivated the market.

2004

Began the manufacture of CNC lathes as finished products at Star Micronics Manufacturing Dalian Co., Ltd.

Began assembling finished products in China ahead of competitors to reduce costs and strengthen production capacity.

2012

Established Star Micronics Manufacturing (Thailand) Co., Ltd.

Established a subsidiary to manufacture machine tools in Nakhon Ratchasima, Thailand. Set up a machine tools production system across three bases in Japan, China and Thailand in response to the expansion of emerging markets in Asia.

2013

Launched Apple® iOS Compatible MFi Certified Printer

Developed a printer that can be connected to iOS devices via Bluetooth® amid the growing global demand for tablet POS systems using smartphones and tablet devices. Buoyed by the rush of inquiries prior to release, product widely accepted by the market.

*1 Apple is a trademark of Apple Inc., registered in the U.S. and other countries.
*2 IOS is a trademark or registered trademark of Cisco in the U.S. and other countries and is used under license.
*3 The Bluetooth® word mark and logos are registered trademarks owned by Bluetooth SIG, Inc. and any use of such marks by Star Micronics Co., Ltd. is under license.

2018

Established Star Marketing Japan Co., Ltd.

Established Star Marketing Japan Co., Ltd. as a sales subsidiary in Shimbashi, Tokyo in a bid to further develop and expand the mPOS market in Japan. Through activities in the city center, responded quickly to the diverse needs of customers.

2020

Completed construction of a new head office

Completed construction of a new head office with a view to upgrading and expanding the Company's Business Continuity Plan (BCP) by taking full advantage of such high disaster prevention capabilities as a seismic isolation structure that can handle long-periods of seismic motion and an emergency power supply that can continue for a long period of time. In addition, actively introduced new work styles through a variety of measures including the adoption of information communication technology (ICT) to help create a paperless office and free address system.

Completed construction of the Solution Center

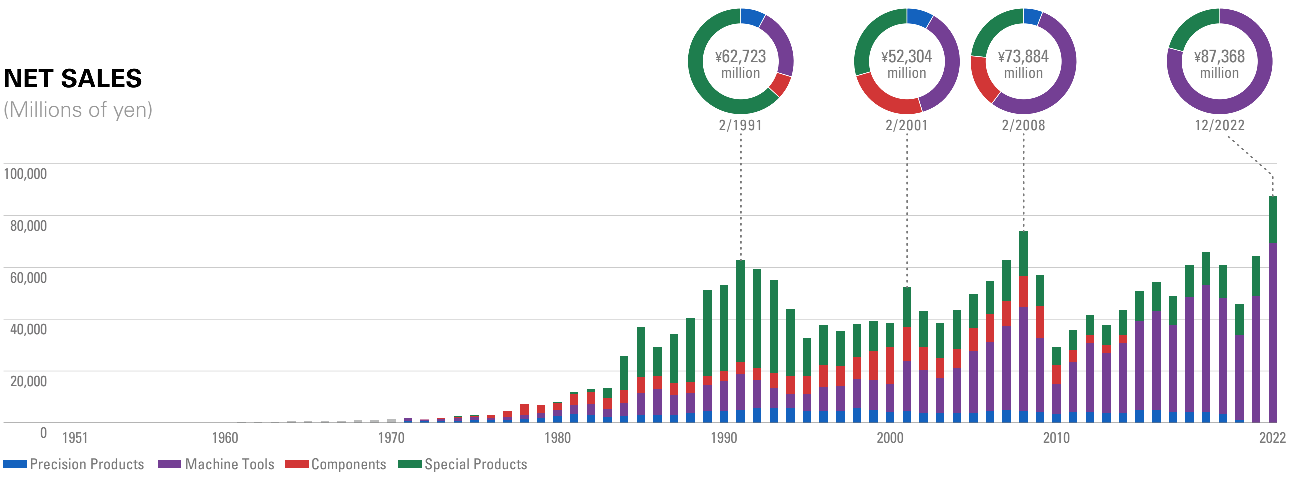
Completed construction of the Solution Center to strengthen before- and after-sales service and product quality. As a new base for the Machine Tools Segment, the Solution Center can serve as a permanent display of various automatic lathes while accommodating multiple functions. The Center is equipped with a wide range of showrooms, a dedicated NC training room, and evaluation, testing and other rooms enabling the use of actual machines for instruction and process testing.

2022

Shift to the Prime Market from the First Section of the Tokyo Stock Exchange.

NET SALES

(Millions of yen)



*1 Data up to the fiscal year ended February 28, 1970 is based on the total of each segment.
*2 Data from the fiscal year ended February 29, 1972 to the fiscal year ended February 28, 2005 is classified into the three Precision Electronic Equipment, Machine Tools and Precision Products segments. Effective from the fiscal year ended February 28, 2006, operations were reclassified into four business segments with Precision Electronics Equipment separated into Special Products and Components. However, data from the fiscal year ended February 29, 1972 to the fiscal year ended February 28, 2005 is based on the four business segments for comparative purposes.
*3 Effective from the fiscal period ended December 31, 2018, Star Micronics Co., Ltd. changed its account settlement date from the end of February to December 31.
*4 In conjunction with its decision to dissolve the Precision Products Division, Star Micronics Co., Ltd. took steps to revise the classification of its business segments in 2020. Effective from 2021, the Company reclassified the three Special Products, Machine Tools, and Precision Products segments into the two Special Products and Machine Tools segments.

Financial Highlights

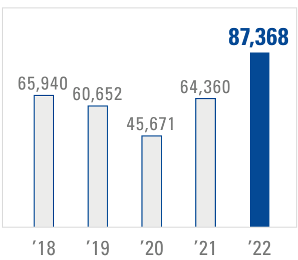
Financial Highlights | Related Information by Geographical Region

Star Micronics Co., Ltd. and Consolidated Subsidiaries
For the years ended December 2020, 2021 and 2022

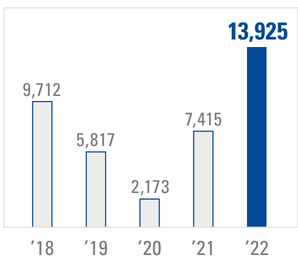
	Millions of yen			Change (%)	Thousands of U.S. dollars
	2020	2021	2022	2022/2021	2022
For the year :					
Net sales	¥45,671	¥64,360	¥87,368	35.7	$656,902
Operating income	2,173	7,415	13,925	87.8	104,699
Net income attributable to owners of the parent	1,732	5,740	10,299	79.4	77,436
Return on sales	3.8%	8.9%	11.8%		
Capital expenditures	1,908	1,926	3,390	76.0	25,489
Depreciation and amortization	2,255	2,127	2,414	13.5	18,150
At year-end :					
Total assets	71,622	82,361	99,539	20.9	748,414
Total equity	49,822	61,728	73,088	18.4	549,534
Equity ratio	68.2%	74.1%	73.0%		
	Yen			Change (%)	U.S. dollars
Per share :					
Basic net income	¥49.07	¥150.83	¥271.14	79.8	$2.04
Diluted net income	42.46	142.38	270.01	89.6	2.03
Cash dividends applicable to the year	58.00	58.00	70.00	20.7	0.53
Stock information :					
Common shares issued	45,091,334	44,091,334	42,465,134		
Number of shareholders	9,103	10,727	11,776		

Note : The rate of ¥133 to US$1, prevailing on December 31, 2022, has been used for translation into U.S. dollar amounts.

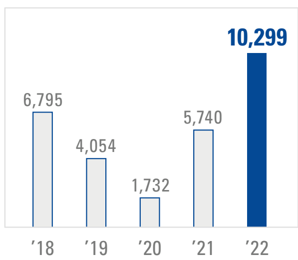
NET SALES
(Millions of yen)



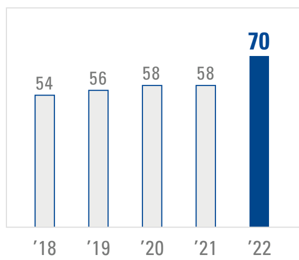
OPERATING INCOME
(Millions of yen)



NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT
(Millions of yen)



CASH DIVIDENDS APPLICABLE TO THE YEAR
(Yen)



Related Information by Geographical Region

Financial Highlights

Related Information by Geographical Region

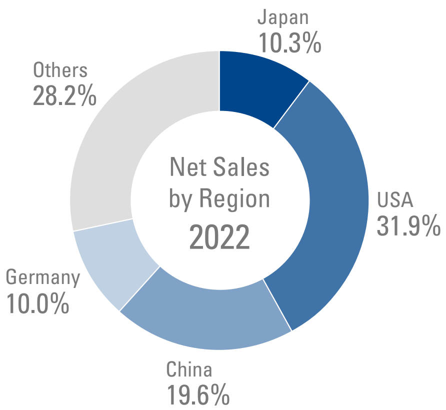
Star Micronics Co., Ltd. and Consolidated Subsidiaries

For the years ended December 2020, 2021 and 2022

Net Sales by Geographical Region

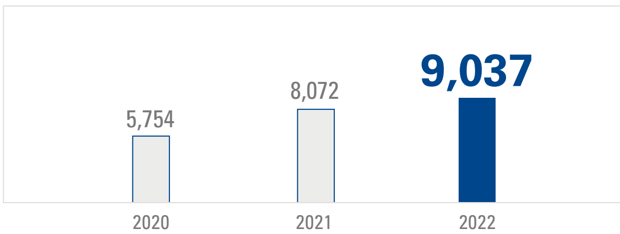
	Millions of yen			Change (%)	Thousands of U.S. dollars
	2020	2021	2022	2022/2021	2022
Japan	¥5,754	¥8,072	¥9,037	12.0	$67,947
USA	13,708	17,315	27,904	61.2	209,804
China	10,437	14,543	17,112	17.7	128,662
Germany	2,827	6,076	8,743	43.9	65,737
Others	12,945	18,354	24,572	33.9	184,752
Total	45,671	64,360	87,368	35.7	656,902

Note : The rate of ¥133 to US$1, prevailing on December 31, 2022, has been used for translation into U.S. dollar amounts.



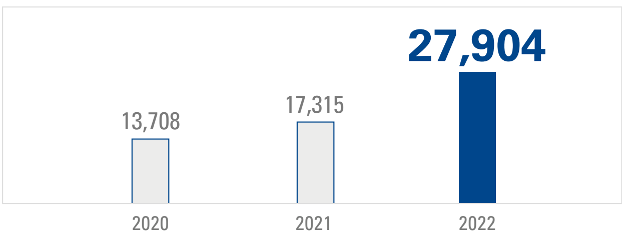
Japan

(Millions of yen)



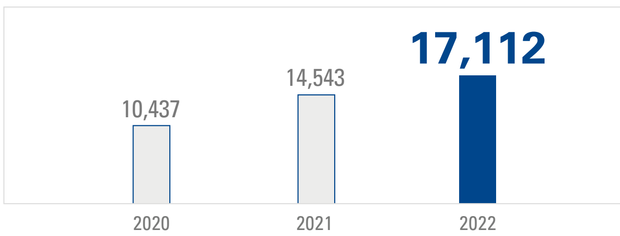
USA

(Millions of yen)



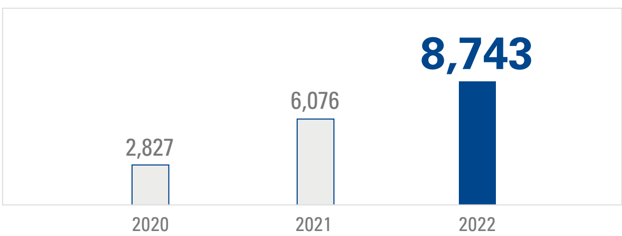
China

(Millions of yen)



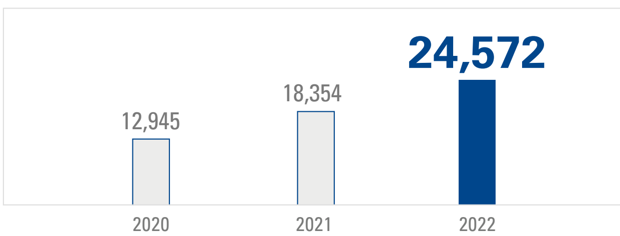
Germany

(Millions of yen)



Others

(Millions of yen)



TO OUR SHAREHOLDERS

Mamoru Sato | Representative Director,
President and CEO

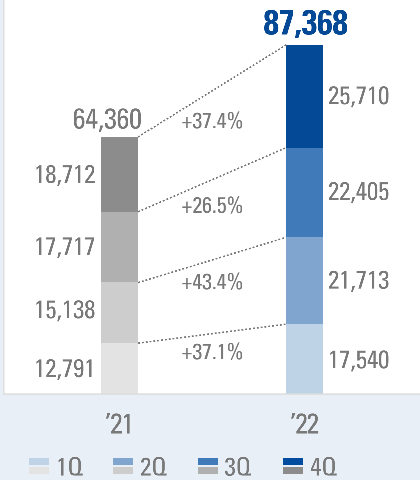
Confronting materiality to realize our purpose

Despite the ongoing uncertainty surrounding factors such as the prolonged impact of COVID-19 and global inflation, both the Machine Tools and Special Products segments performed well in 2022, achieving record highs in net sales as well as net income attributable to owners of the parent.
2023 is the second year of our First Medium-Term Management Plan, a roadmap for building a foundation for change over the three-year period from 2022 to 2024. Recognizing the need to further solidify our foundation, we will redouble efforts to bring about a sustainable society and enhance corporate value by putting into practice our corporate philosophy of the Company and employees growing together and contributing to society.

01 Operating Results in 2022

Looking at 2022, global economic conditions remained uncertain. In addition to the effects of COVID-19, this uncertainty was due to a variety of factors including the accelerated pace of global inflation, soaring resource prices triggered by the prolonged Ukraine crisis, tight supply of components and parts such as semiconductors, and sharp fluctuations in foreign currency exchange rates. By geographic region, the U.S. economy exhibited a recovery trend on the back of steady consumer spending. In contrast, economic conditions throughout Europe were generally weak. In Asia, China's economy remained firm despite significant restrictions on economic activities owing to the government's decision to adopt a zero-corona policy. On the domestic front, Japan witnessed a modest economic recovery.
In each of the major markets in which the Star Micronics Group operates, demand for POS printers was strong especially in the U.S. At the same time, overseas demand for the Group's mainstay machine tools remained generally high with firm demand also in Japan.
Under these circumstances, the Star Micronics Group reported net sales of ¥87,368 million for 2022, up 35.7% compared with the previous year. This was largely due to the substantial increase in sales of machine tools. From a profit perspective, operating income climbed 87.8%, to ¥13,925 million owing mainly to the substantial jump in sales. Net income attributable to owners of the parent amounted to ¥10,299 million, up 79.4% year on year.

NET SALES
(Millions of yen, %)



02 Business Overview

In the Machine Tools Segment, sales of CNC automatic lathes jumped significantly amid brisk global demand for capital investment. By geographic region, sales were strong across a wide range of industries centered on the medical-related sector in the U.S. market. In the European market, sales were robust mainly in automotive-related industries. Accordingly, sales rose significantly in each market. Despite signs of a cautious approach toward capital investment in China over the latter half of the year, sales in the Asian market increased. This was mainly due to the ongoing high level of sales mainly in automotive-related industries. With signs of a recovery across a wide range of industries, sales in the domestic market increased substantially. This was despite the delay in the automotive-related recovery in Japan.

As a result of each of the aforementioned factors, both sales and profits increased substantially. In specific terms, sales grew 42.3% compared with the previous year to ¥69,409 million. Operating income jumped 78.6% year on year to ¥12,249 million.

Turning to the Special Products Segment, despite the impact of factors such as delays in the supply of products attributable to shortages in the procurement of components and parts as well as disruptions to logistics, sales of POS printers increased. In addition to the ongoing period of favorable market conditions, which reflected continued brisk mPOS demand in each market, this increase in sales was largely due to the impact of the yen's depreciation. Looking at trends by geographic region, sales in the U.S. market increased substantially. While delays in the supply of products had a negative effect, this was largely attributable to the impact of the yen's depreciation. In the European and domestic markets, conditions were favorable; however, European and domestic sales decreased due to delays in the supply of products.

As a result, both sales and profits grew. In specific terms, sales increased 15.3% compared with the previous year, to ¥17,959 million. Operating income grew substantially climbing 64.5% year on year, to ¥3,754 million.

03 Outlook for the Following Year

Looking ahead, conditions throughout the global economy are expected to remain uncertain. In addition to ongoing concerns surrounding geopolitical risks where no end is in sight, including the crisis in Ukraine, there are anxieties toward the economic slowdown caused by inflation and trends in energy prices which continue to over at a high level. In Japan, the impact of volatile foreign currency exchange rates also continues to be a major cause for concern.

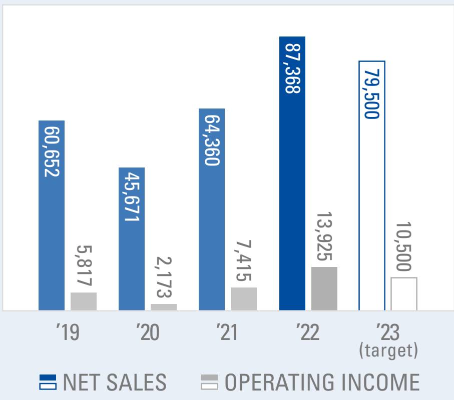
Under these circumstances, and in the context of the Company's consolidated business performance for the coming year, sales in the mainstay Machine Tools Segment are forecast to decline. Despite expectations of an upswing in sales as order backlogs clear in Europe and the U.S., this forecast decline is due to concerns surrounding a downturn in capital investment demand triggered by the slowdown in economic conditions. In the Special Products Segment, sales are projected to stall in the U.S., but remain firm in the European market. Taking into account these and other factors including the impact of foreign currency exchange rates, sales in this segment are forecast to remain at the same level as the year under review.

Taking into account the aforementioned factors, we are projecting a downturn in consolidated results in the coming year. In specific terms, we expect a decrease in net sales of 9.0% compared with 2022, to ¥79,500 million. On a year-on-year basis, operating income is forecast to decline 24.6%, to ¥10,500 million and net income attributable to owners of the parent to also drop 21.3%, to ¥8,100 million.

Forecasts are based on the assumptions that the yen/U.S. dollar exchange rate will be ¥125 and the yen/Euro exchange rate will be ¥130.

NET SALES AND OPERATING INCOME

(Millions of yen)



04 About the Medium-Term Management Plan

The Star Micronics Group formulated its Medium-Term Management Plan as part of a review of its Corporate Philosophy, Purpose, Management Policy, and Action Guidelines to empower employees to make decisions and act autonomously as we seek to become a company that grows sustainably together with society. At the same time, we formulated a Vision for 2030. (Please refer to pages 10-14 of the Company's Medium-Term Management Plan for details.)

In order to realize its Vision for 2030, the Company has divided the next nine years into three-year periods. In working toward "building a foundation for change," "driving change," and "realizing our vision" over each period, respectively, Star Micronics has formulated the first Medium-Term Management Plan covering the three years from 2022 to 2024.

Positioning the mPOS and food delivery markets as a principal area of operations, the Star Micronics Group will work to further expand sales of printers and peripheral equipment while at the same time refining software technologies in a bid to continue providing new value to customers. Through these means, the Group will endeavor to become a total solution provider for store operations in the Specialty Products Segment.

In the Machine Tools Segment, the Group will strengthen the production system in Thailand and China, position the Kikugawa Factory as a sustainable factory that nurtures people, develops technology, and grows together with society and promote large-scale renovation in order to meet robust demand for facilities and equipment. At the same time, steps will be taken to delve deeper into hardware technologies and adopt software technologies, and to further cement the Group's position as a leading manufacturer of automatic lathes.

As far as new business is concerned, the Group will focus on uncovering opportunities in the three production DX, store DX, and logistics DX domains while aiming to construct a new business model mainly through M&As.

From a Group-wide perspective, energies will be directed toward strengthening the management platform, reforming human resource systems that allow employees to maximize their potential, and constructing R&D structures and systems to continuously create proprietary technologies, while vigorously moving forward with initiatives to address material issues based on the Sustainability Policy.

Positioned as KPIs, we are targeting cumulative operating cash flow of ¥20-¥25 billion, an average consolidated annual operating income per employee of ¥6 million, ROE of 10.0% or more, a ratio of R&D expenses to net sales of 5.0%, and non-consolidated annual education and training outlays per employee of ¥100,000 over the three-year period from 2022 to 2024. In the first year, 2022, operating cash flow, consolidated annual operating income per employee, ROE, the ratio of R&D expenses to net sales, and non-consolidated annual education and training outlays per employee came in at ¥7.5 billion, ¥8.37 million, 15.4%, 2.3%, and ¥89,084, respectively.

We will continue to aggressively reform our business and management on an ongoing basis and make concerted Group-wide efforts to enhance our corporate value.

05 Corporate Governance and Shareholder Returns

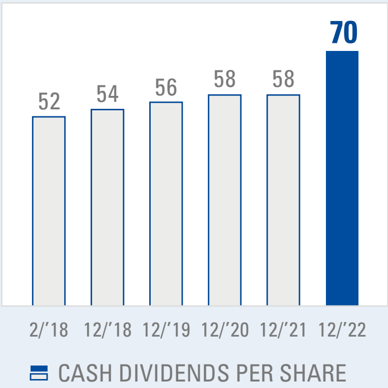
The Board of Directors of the Company consists of two internal directors and four outside directors, and thus the outside directors already account for the majority. Star Micronics has also put in place the non-mandatory Nomination and Compensation Committee as an advisory body to the Board of Directors to enhance the transparency and objectivity of procedures related to the nomination and compensation of directors and executive officers and to further enhance corporate governance.

Star Micronics positions the return and distribution of profits to shareholders as an important management priority. Under its shareholder return policy, the Company has decided to target a consolidated total payout ratio of at least 50%, including the repurchase of its own shares, with the aim of paying a stable annual dividend of at least ¥60 per share.

Taking into consideration its consolidated business performance for the year under review and the Company's record high net sales and net income attributable to owners of the parent, Star Micronics recognizes the critical need to further upgrade and expand the return and distribution of profits to shareholders including dividends. As far as its year-end dividend is concerned, the Company has therefore decided to pay a period-end dividend of ¥40 per share, comprising an ordinary dividend of ¥30 per share and a special dividend of ¥10 per share. Together with the interim dividend of ¥30 per share, the Company has decided to pay a record-high annual dividend of ¥70 per share.

CASH DIVIDENDS PER SHARE

(Yen)



As far as the Company's internal reserves are concerned, Star Micronics is committed to enhancing its corporate value while increasing shareholders' profits. At the same time, the Company will look to engage in a variety of activities including investment in future growth fields in a bid to ensure its sustainable growth.

Looking ahead, Star Micronics plans to page an interim and period-end dividend of ¥30 per share for an annual dividend of ¥60 per share for 2023.

In working toward achieving its established goals, the Star Micronics Group kindly requests the continued support and understanding of all stakeholders.

March 2023

Mamoru Sato

Representative Director, President and CEO

STRATEGY

Medium-Term Management Plan

Star Micronics put in place a medium-term management plan in February 2022.
Taking stock of its Corporate Philosophy, Purpose, Management Policy, and Action Guidelines, the Company has outlined its Vision for 2030 based on the structure of this Philosophy and created a roadmap to realize this Vision.

Vision for 2030

Drawing on its corporate philosophy and the management base, human resource systems, and R&D capabilities that underpin its multi-business structure, Star Micronics is targeting net sales of ¥100.0 billion and operating income of ¥20.0 billion.

Special Products Segment

Secure stable revenue while serving as the driving force behind commercialization of the service business

Machine Tools Segment

Generate continuous cash as a core business

New Business

Evolve as a promising mainstay third pillar of business

- Diverse management team in which each individual exhibits characteristics that exemplify the Company's action guidelines
- Environment in which all employees can maximize their potential regardless of gender, age, or race
- R&D capabilities to continuously create unique technologies

Vision Roadmap

First Medium-Term Management Plan 2022-2024 Building a foundation for change	Second Medium-Term Management Plan 2025-2027 Driving change	Third Medium-Term Management Plan 2028-2030 Realizing our vision
Special Products Segment		
• Make deeper inroads into the mPOS/food delivery market • Uncover peripheral areas • Strengthen software technologies through various measures including M&As	• Commercialize peripheral areas • Nurture the service business into an earnings stream using software technology	• Become a total solution provider for store operations
Machine Tools Segment		
• Strengthen the production system • Delve into hardware technologies • Promote the adoption of software technology	• Expand in areas outside the automobile industry • Commercialize peripheral areas • Strengthen software technologies	• Establish a position as a leading manufacturer of automatic lathes
New Business		
• Uncover and commercialize new segments mainly through M&As	• Uncover and commercialize new segments by utilizing the Company's own resources and collaboration with other companies	• Create new business segments • Target net sales of ¥10.0 billion • Target operating income of ¥1.5 billion
System Maintenance		
• Strengthen the management platform • Strengthen R&D structures and systems • Reform human resource systems	• Put in place a diversity management structure and systems • Reform the corporate culture based on new human resource structures and systems	• Continue to strengthen the management platform

Progress of "Building a Foundation for Change"

In formulating the First Medium-Term Management Plan, Star Micronics has positioned the three years from 2022 to 2024 as a period for building a foundation for change in a bid to realize its Vision for 2030. Progress in 2022, the first year of the Medium-Term Management Plan, and plans for 2023 are presented as follows:

	First Medium-Term Management Plan 2022-2024 Building a foundation for change	2022 Progress	2023 Plans
Special Products Segment	• Make deeper inroads into the mPOS/food delivery market • Uncover peripheral areas • Strengthen software technologies through various measures including M&As	• Formulated plans for peripheral areas • Commenced search activities	• Commence new product sales and further promote planning • Expand production items by new EMS partners
Machine Tools Segment	• Strengthen the production system • Delve into hardware technologies • Promote the adoption of software technology	• Completed work to expand production capacity at the Company's Dalian factory • Promoted the development of hardware technology • Promoted the development of processing estimation support software	• Complete work to expand production capacity at the Company's factory in Thailand • Promote the development of hardware technology • Promote the development of processing estimation support software
New Business	• Uncover and commercialize new segments mainly through M&As	• Explored new segments by utilizing the Company's own resources and through collaboration with other companies	• Explored new segments by utilizing the Company's own resources and through collaboration with other companies
System Maintenance	• Strengthen the management platform • Strengthen R&D structures and systems • Reform human resource systems	• Strengthen business management systems • Formulated Development Headquarters plans • Put in place a new human resource structure and systems	• Strengthen business management systems • Establish the Development Headquarters • Put in place a new human resource structure and systems

In addition, progress of each KPI is presented as follows:

KPI	Target (Next three-year cumulative/average)	2022 Actual	2023 Forecast
Operating cash flow	¥20.0 billion – ¥25.0 billion (cumulative)	¥7.5 billion	¥6.6 billion (cumulative ¥14.1 billion)
Operating income per employee (consolidated)	¥6.00 million (average)	¥8.37 million	¥6.36 million
ROE	10.0% or more (average)	15.4%	11.1%
Ratio of R&D expenses to net sales	5.0% (average)	2.3%	2.5%
Education and training outlays per employee (non-consolidated)	¥100,000* (average)	¥89,084	¥86,782

* In order to further invest in human resources and enhance corporate value, the target of education and training outlays per employee has changed.

Business Strategy

[Special Products Segment]

First Medium-Term Management Plan 2022-2024 KPIs

	Target (Next three-year average)	2022 Actual	2023 Forecast
ROA	20.0%	26.4%	20.0%
Operating income ratio	18.0%	20.9%	16.9%

Principal Initiatives

1. Explore and expand sales of products other than printers used in stores
2. Strengthen cloud-related technologies with an eye to external alliances
3. Optimize production and logistics through reorganization of EMS partners

2022 Progress

1. Took preparatory steps to commence sales of peripheral equipment and began (initiated) further search activities
2. Undertook a renewal of the Star Micronics Cloud Service (SMCS) and bolstered development capabilities
3. Promoted the optimization of production and logistics through reorganization of EMS partners

2023 Plans

1. Commence sales of peripheral equipment and put in place additional plans for new products
2. Promote stable SMCS operations and bolster development capabilities
3. Expand production items by new EMS partners

[Machine Tools Segment]

First Medium-Term Management Plan 2022-2024 KPIs

	Target (Next three-year average)	2022 Actual	2023 Forecast
ROA	15.0%	19.6%	15.0%
Operating income ratio	15.0%	17.6%	15.7%

Principal Initiatives

1. Globally expand the Company's Solution Center
   Establish solution centers in Europe and Asia, building a user support system in collaboration with Japan
2. Enhance the development of mechanical technology and before/after-sales service support software
3. Expand production capacity through three manufacturing bases
   (1) Undertake a large-scale renovation of domestic factories
   (2) Increase floor area at the Company's Dalian factory
   (3) Upgrade and expand facilities and equipment at the Company's factory in Thailand

2022 Progress

1. Took preparatory steps to commence operations at the Asia Solution Center
   Formulated Europe Solution Center plans
2. Promoted the development of mechanical technology and processing estimation support software; took preparatory steps to provide digital content
3. Expand production capacity through three manufacturing bases
   (1) Undertook a large-scale renovation of domestic factories (commenced the formulation of new factory plans; essentially in line with plans)
   (2) Increased floor area at the Company's Dalian factory (completed in line with plans)
   (3) Upgraded and expanded facilities and equipment at the Company's factory in Thailand (essentially in line with plans)

2023 Plans

1. Commence operations at the Asia Solution Center
   Commence construction of Europe Solution Center
2. Promote the development of mechanical technology and processing estimation support software; commence to provide digital content
3. Expand production capacity through three manufacturing bases
   (1) Undertake a large-scale renovation of domestic factories (commenced demolition work at certain existing factories)
   (2) Upgrade and expand facilities and equipment at the Company's factory in Thailand (scheduled to be completed)

[New Business]

Create new business value that contributes to improve business efficiency of customers

Principal Initiatives Develop and commercialize new business proposals mainly through the use of M&A's
Target 2024: Net sales of ¥3.0 billion, operating income of ¥0.3 billion

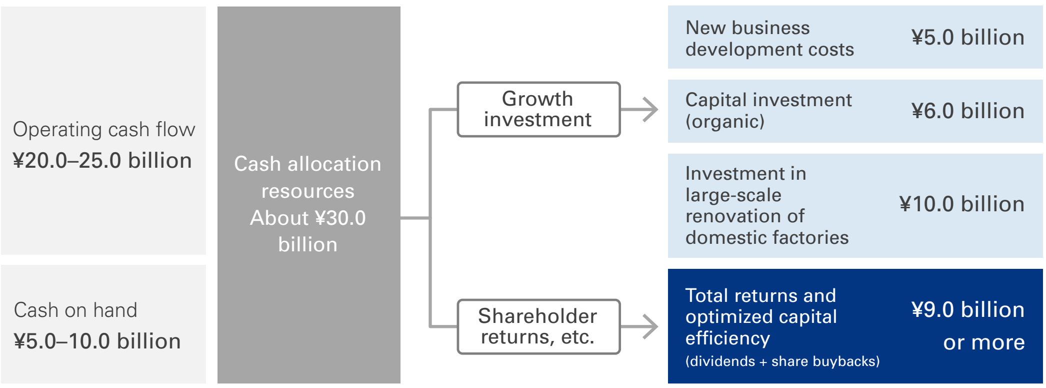
New Business Domains

Business Domain	Value Provided/Business Process	2022 Progress
Logistics DX	Provide systems to streamline the processes of small and medium-sized warehousing and distribution operations	Considered and put forward new business proposals, and approached potential business partners
Store DX	Provide hardware and software (systems) that streamline store operations	Promoted activities aimed at including Smart Solution Technology, Inc. (SST) in the Company's scope of consolidation
Production DX	Provide new services related to the Machine Tools Segment	Promoted the development of processing estimation support software in cooperation with the Machine Tools Segment

Cash Allocation

Drawing on its operating cash flow and cash on hand over the three years of the First Medium-Term Management Plan, Star Micronics will allocate ¥21 billion to growth investments as a part of efforts to carry out the aforementioned principal initiatives and ¥9 billion or more to address certain concerns including the return of profits to shareholders.

Fund Allocation Plan (2022–2024)



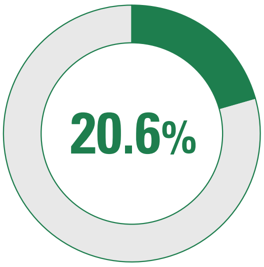
In putting in place and carrying out its shareholder return policy, Star Micronics is targeting a total payout ratio of 50% or more including the purchase of own shares based on a stable dividend of ¥60 or more per share.

Review of Operations

SPECIAL PRODUCTS

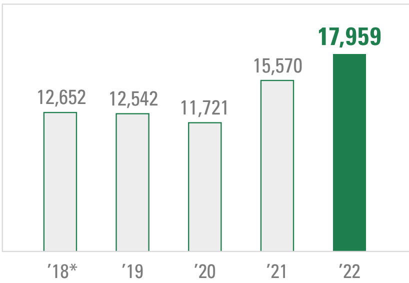
Point-of-sale (POS) printers used at such places as restaurants are the main products in the Special Products Segment. In recent years, demand for mobile POS (mPOS) printers that are compatible with tablet terminals, smartphones, and other devices has been expanding. mPOS products are available under the mCollection™ brand, which not only includes printers but also such peripheral devices as cash drawers. Through the Special Products Segment, the Company also offers Star Micronics Cloud Services (SMCS), a cloud-based service for printers.

SALES BY SEGMENT



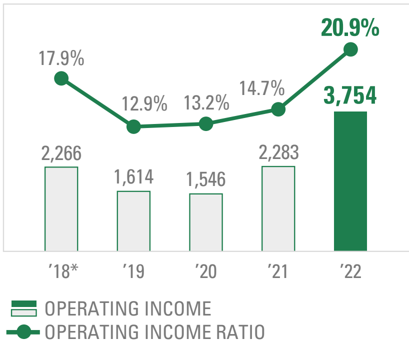
NET SALES

(Millions of yen)



OPERATING INCOME & OPERATING INCOME RATIO

(Millions of yen, %)



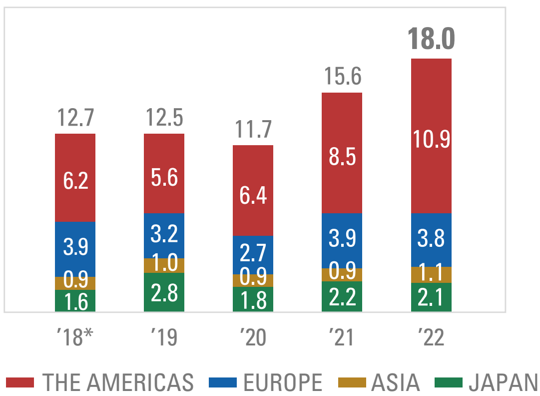
Business Environment and Results in 2022

As far as POS printers in 2022 are concerned, despite the impact of factors such as delays in the supply of products attributable to shortages in the procurement of components and parts as well as disruptions to logistics, sales increased. In addition to the ongoing period of favorable market conditions, which reflected continued brisk mPOS demand in each market, this increase in sales was largely due to the impact of the yen's depreciation. Looking at trends by geographic region, sales in the U.S. market increased substantially. While delays in the supply of products had a negative effect, this was largely attributable to the impact of the yen's depreciation. In the European and domestic markets, conditions were favorable. Sales, however, decreased owing to delays in the supply of products.

Accounting for each of the aforementioned, net sales in the Special Products Segment increased 15.3% compared with the previous year, to ¥17,959 million (US$135,030 thousand). From a profit perspective, operating income grew 64.5% year on year, to ¥3,754 million (US$28,225 thousand).

SPECIAL PRODUCTS SEGMENT SALES BY GEOGRAPHICAL REGION

(Billions of yen)



* The consolidated fiscal period for the fiscal period ended December 31, 2018 is based on and presented for a 10-month period for the Company and consolidated subsidiaries in Japan and a 12-month period for overseas consolidated subsidiaries.

Outlook for 2023 and Business Strategies

In the Special Products Segment, sales are projected to stall in the U.S., but remain firm in the European market in 2023. Taking into account these and other factors including the impact of foreign currency exchange rates, sales in this segment are forecast to remain at the same level as current fiscal year.

In its mainstay mPOS lineup, Star Micronics will launch sales of a new label printer targeting the food delivery sector in mid-2023. As a printer that can accommodate linerless label paper, this new product is environmentally friendly. Unlike conventional printers, this new product also supports strong adhesive linerless labels. With this initiative, Star Micronics aims to increase further its market share in the growing label printer market.

From a business results perspective, net sales are projected to come in at ¥17,740 million, down 1.2% compared with the current fiscal year. On the earnings front, operating income is forecast to decline 20.1% year on year, to ¥3,000 million.

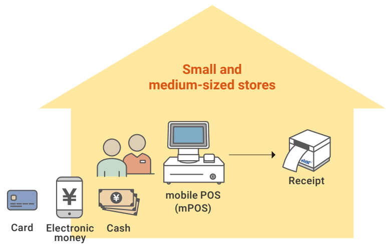
POS printer mC-Print3

Sales Volume of POS Printers by Region

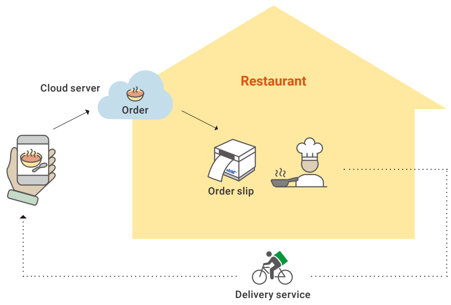
(Thousands of units)

	2021	2022	Change
The Americas	360	341	-5.3%
Europe	164	135	-17.7%
Asia	48	50	4.2%
Japan	61	56	-8.2%
Total	634	583	-8.0%

mobile POS (mPOS)



Food delivery



Label Printer mC-Label3 released!

Added to the mCollection of peripheral equipment for stores, Star Micronics will commence sales of the thermal 3-inch label printer, mC-Label3, in Japan and overseas from mid-2023. Label solutions linked to store systems are indispensable in the food delivery, takeout, and related scenes. While Star Micronics has to date sold printers that are compatible with weak-adhesive linerless label paper, the Company has received comments that stronger adhesives are required depending on the usage scene. The mC-Label3 supports strong adhesive linerless labels, which have been difficult to handle with small printers, while realizing high-speed printing. By supporting various types of paper, the mC-Label3 can be used for a wide range of applications, such as price tags and shipping labels, not to mention product labels. The mC-Label3 will be sold in the Americas, Europe, and Asia, including Japan, with the aim of further increasing market share in the growing label printer market.

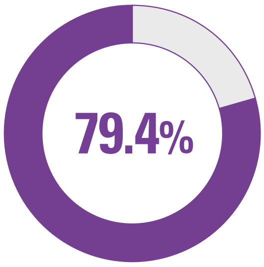
Review of Operations

MACHINE TOOLS

In the Machine Tools Segment, Star Micronics' Swiss-Type CNC Automatic Lathes are ideally suited for precision component processing with high accuracy and are used in the processing of a wide range of components including automotive parts as well as communication equipment and medical components. Star Micronics has put in place solutions that consistently address users' needs by leveraging the latest technologies including its proprietary Star Motion Control System and web-based application that optimizes and monitors machine operations, respectively.

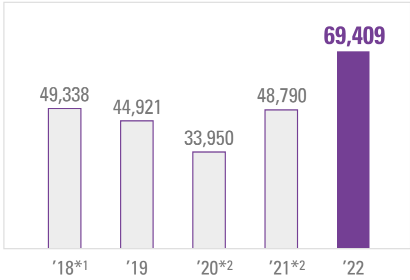
CNC automatic lathe video https://youtu.be/5eJjAH6Z2vA

SALES BY SEGMENT



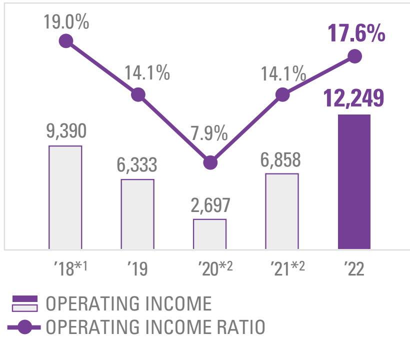
NET SALES

(Millions of yen)



OPERATING INCOME & OPERATING INCOME RATIO

(Millions of yen, %)



Business Environment and Results in 2022

In the Machine Tools Segment, sales of CNC automatic lathes jumped significantly amid brisk global demand for capital investment in 2022. By geographic region, sales were strong across a wide range of industries centered on the medical-related sector in the U.S. market. In the European market, sales were robust mainly in automotive-related industries. Accordingly, sales rose significantly in each market. Despite signs of a cautious approach toward capital investment in China over the latter half of the year, sales in the Asian market increased. This was mainly due to the ongoing high level of sales mainly in automotive-related industries. With signs of a recovery across a wide range of industries, sales in the domestic market increased substantially. This was despite the delay in an automotive-related recovery in Japan.

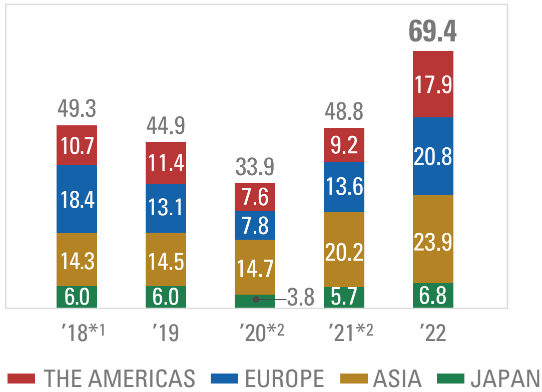
Accounting for these factors, net sales in the Machine Tools Segment climbed 42.3% compared with the previous year, to ¥69,409 million (US$521,872 thousand) while operating income jumped 78.6% year on year, to ¥12,249 million (US$92,098 thousand).

*1 The consolidated fiscal period for the fiscal period ended December 31, 2018 is based on and presented for a 10-month period for the Company and consolidated subsidiaries in Japan and a 12-month period for overseas consolidated subsidiaries.

*2 In conjunction with its decision to dissolve the Precision Products Division, Star Micronics Co., Ltd. took steps to revise the classification of its business segments in 2020. Effective from 2021, the Company reclassified the three Special Products, Machine Tools, and Precision Products segments into the two Special Products and Machine Tools segments. Meanwhile, turning to segment information in 2020, the amount included in the Precision Products Segment is now included in the Machine Tools Segment.

MACHINE TOOLS SEGMENT SALES BY GEOGRAPHICAL REGION

(Billions of yen)



Outlook for 2023 and Business Strategies

Sales in the mainstay Machine Tools Segment are forecast to decline in 2023. Despite expectations of an upswing in sales as order backlogs clear in Europe and the U.S., this forecast decline is due to concerns surrounding a downturn in capital investment demand triggered by the slowdown in economic conditions.

Looking ahead, Star Micronics will undertake the necessary preparations to commence operations at solution centers in Shanghai and Switzerland while working to expand production capacity by bolstering its three production bases. The Company will also strengthen its sales structure by enhancing before- and after-sales services in Japan, Europe, and Asia.

As far as business results are concerned, net sales in the Machine Tools Segment are forecast to decline 11.0% compared with the year under review, to ¥61,760 million. Operating income is anticipated to decrease 20.8% year on year, to ¥9,700 million.

CNC Swiss-Type
Automatic Lathe SL-10

A New Product, the SD-26, Draws Attention at the Japan International Machine Tool Fair JIMTOF2022

Star Micronics announced details of the SD-26, a new model Swiss type automatic lathe capable of up to 26-diameter machining in September 2022. The SD-26 is available in 4 types allowing the user to select the most suitable tool post specification according to the workpiece. The type S has a 2nd B-axis mechanism that can provide swivel control for the dedicated tool unit and can be fitted with various types of tool units, including the industry's first twin-thread whirling unit. All types offer various features to enhance workability and operability during setup and other operations, including reconfigured tool post layouts as well as various software options to support operator operations.

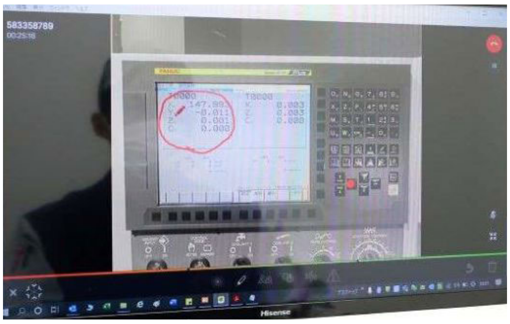
Exhibited for the first time in Japan at JIMTOF2022, the SD-26 type E attracted considerable praise. Customers were able to experience not only the machining capabilities of this new product, but also its workability and operability.

SOLUTION CENTER

Equipped with a full range of functions, Star Micronics has established the Solution Center in Kikugawa City, Shizuoka Prefecture, for the purpose of providing before and after-sales services to users, collecting technical information, and strengthening marketing in the Machine Tools Segment.
The Solution Center is equipped with a showroom, a dedicated NC school room for machine operation training, evaluation testing and measurement rooms, reception rooms equipped with a web conference system, a conference room that can accommodate approximately 100 people, and a sales office for the Machine Tools Segment.
In September 2022, the Company held a new product press conference for the media for the first time in three years, as well as a new product preview for distributors in Japan. While work on the Center was completed in 2020, Star Micronics refrained from holding public events due to the pandemic. Accordingly, this was the first time to invite a large audience since the Center's completion.
In addition, the Solution Center places considerable emphasis on such aspects as web-based information dissemination and service. The Center can also help upgrade and expand online services while serving as a venue for holding online private shows and providing remote support via customers' smartphones.
Moving forward, Star Micronics will continue to directly provide services to its users both on a face-to-face as well as online basis.

Utilizing the remote support application, acty, to connect customers' smartphones to the Solution Center call center

The customer's smartphone



Star Micronics sales staff PC

For more information about the Solution Center, please refer to the following URL.
https://star-m.jp/eng/products/lathe/solutioncenter/index.html
A video of the Solution Center is also provided at the following URL.
https://m.youtube.com/watch?v=ZrhXF8qKPpk&feature=youtu.be

In order to expand its solution capabilities globally, Star Micronics will open solution centers equipped with similar features at Star Micronics AG (SMAG) in Zurich, Switzerland and Shanghai Xingang Machinery Co., Ltd. (Shanghai Xingang) in Shanghai, China to service the European and Asian markets, respectively. Plans are in place to employ each center as a core base for sales activities in each market.

Shanghai Xingang Machinery Co., Ltd.

In relocating and expanding Shanghai Xingang, a wholly-owned sales subsidiary in China, Star Micronics has decided to establish the Asian Solution Center.

Established in the Free Trade Zone in Shanghai, China in December 2002, Shanghai Xingang engages in sales activities in the Chinese domestic market. In response to the recent strong demand in the Asian market, Star Micronics will establish the Solution Center in conjunction with the relocation of its sales subsidiary to further strengthen the sales capability of machine tool products throughout Asia, and will utilize the Center as a base for providing a full range of services and solutions. The Solution Center is scheduled to open in 2023.

Image of the showroom

Star Micronics AG

Star Micronics has decided to construct a new building at SMAG. In addition to expanding the existing showroom and increasing the number of machines to be exhibited, plans are also in place to set up a workshop area to hold sessions for sales representatives. In this manner, this new facility will serve as a solution center to help showcase the Group’s operations in Europe. By providing before-sales services and further reinforcing its ability to propose various applications, Star Micronics is looking to expand its market share in Europe. Completion of the new building is scheduled for 2024.

SUSTAINABILITY

In formulating its Medium-Term Management Plan in February 2022, Star Micronics provided details of the Group's Sustainability Policy. Under this Policy, the Star Micronics Group aims to help bring about a sustainable society and enhance corporate value by putting into practice the core concept of the Company and employees growing together and contributing to society. At the same time, Star Micronics identified specific material issues and targets from each of the environmental, social, and governance (ESG) perspectives.

SUSTAINABILITY

ENVIRONMENT

Material issues	Targets
• Addressing climate change by reducing CO_2 emissions • Creating environmentally friendly products	• Reducing greenhouse gas emissions • Promoting disclosure under TCFD and other frameworks • Creating new businesses and products leveraging proprietary technologies

2022 Progress

- Set a goal reducing greenhouse gas emissions
- Commenced disclosure from 2023 based on the recommendations of the TCFD
- Established the Sustainability Committee

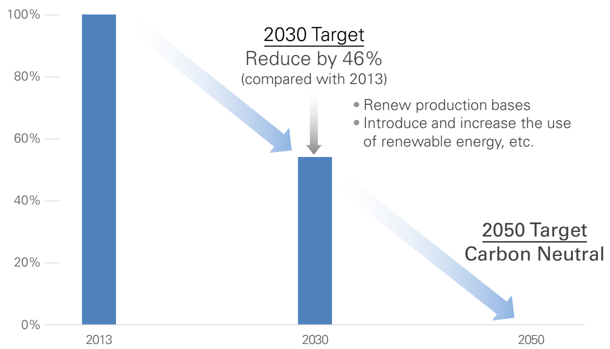
Star Micronics established the Sustainability Committee in 2022, the first year of the Medium-Term Management Plan. In addition to overseeing the Group's promotion structure and systems, the Committee works to strengthen initiatives aimed at resolving issues that impede society's medium- and long-term sustainable growth from each of the ESG perspectives. From 2023, Star Micronics also initiated steps to disclose information based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Carbon Neutral

Star Micronics has set a goal to reduce greenhouse gas emissions in a bid to address climate change. The Company plans to reduce greenhouse gas emissions by 46%, compared with 2013, by 2030 and achieve carbon neutrality by 2050 through various measures including the renewal of production bases in Japan and the introduction of renewable energy.

Addressing Climate Change

Greenhouse Gas Reduction Target



*Scope 1 and 2, including non-consolidated and major consolidated subsidiaries

CO_2 emissions (Scope 1 and 2, including non-consolidated and major consolidated subsidiaries)

(t-CO_2)

2018	2019	2020	2021	2022
13,684	14,480	9,571	11,629	12,205

Environmentally Friendly Products

Star Micronics believes that reducing both space and energy consumption is one way to consider the environment. The Company is actively promoting energy- and resource- saving designs while extending service life by leveraging technologies that are core to compact precision machining and assembly to ensure that its products are smaller, thinner, and help reduce environmental impact during the usage phase. Furthermore, Star Micronics is actively promoting the development of an environmentally friendly lineup including lead-free products and those that comply with the WEEE & RoHS directives.

In the Special Products Segment, Star Micronics has set up its own eco-profile and publishes details for each model. In the Machine Tools Segment, the Company has established its own environmental standards. Models that meet the criteria are identified with an ECO mark as a Star Environmental Standard compliant model.

Information Disclosure Based on the TCFD Recommendations

[Introduction]

Formulated in February 2022, the Star Micronics Group's Sustainability Policy is based on the concept of the Company and employees growing together and contributing to society. In putting into practice this fundamental concept, we recognize the importance of not only the economic, but also the social and environmental aspects of our business activities as we help bring about a sustainable society and enhance corporate value. As a company that operates in countries and regions throughout the world, we also recognize the critical need to address such issues as climate change. In order to meet the expectations and demands of our stakeholders, we have identified and are promoting initiatives to address climate change by reducing CO_2 emissions and create environmentally friendly products as material priority issues.

Against this backdrop, the Star Micronics Group expressed its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in February 2023. With this in mind, we are promoting initiatives to analyze the impact of climate change on our business, together with subsequent risks and opportunities, based on a variety of scenarios. We are then reflecting our findings in business strategies.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

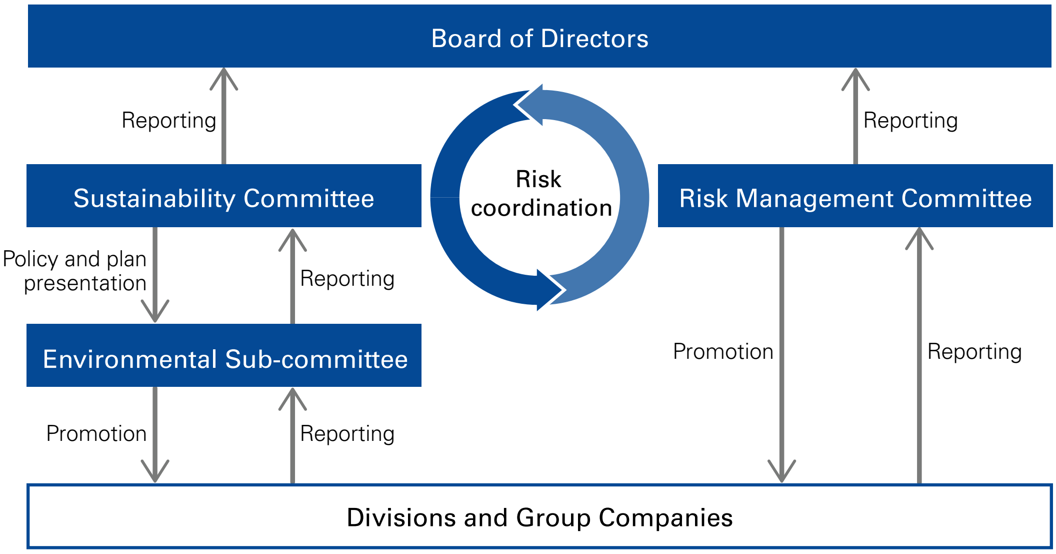
[Governance]

The Group established the Sustainability Committee as a body to make decisions on important matters related to climate change. Chaired by the representative director, president and CEO, and comprised of full-time directors and executive officers, the Committee identifies material sustainability issues, including climate change, sets targets for the resolution of these issues, and promotes Groupwide initiatives. Details of decisions made by the Sustainability Committee as well as counter and related measures are disseminated to each division and Group company through the subordinate Environmental Sub-committee.

The results of activities at each division and Group company are regularly reported to the Sustainability Committee through the Environmental Sub-committee to enhance efficacy and implementation.

As a part of the oversight function, the Sustainability Committee reports regularly to the Board of Directors on the performance and progress of activities.

Environmental Management Framework



Environmental Management Framework Meeting Structure

Meeting structure	Main role	Composition	Frequency	2022 Results
Board of Directors	• Supervision of measures to address environmental issues in the execution of business operations	All Board members	In principle monthly	11 times
Sustainability Committee	• Identify material sustainability issues • Identify climate change risks and opportunities • Put in place a climate change activity policy • Monitor the status of each division's efforts to address climate change • Report on the status of climate change risk and opportunity activities to the Board of Directors	Chairperson: Representative Director, president and CEO Committee members: Full-time directors and executive officers	Semi-annually (extraordinary sessions held as required)	4 times
Environmental Sub-committee	• Evaluate climate change risks and opportunities • Formulate climate change risk and opportunity countermeasures	Members selected in each division	Semi-annually (extraordinary sessions held as required)	5 times
Risk Management Committee	• Determine policies to address emerging risks • Report to the Board of Directors on the Committee's deliberations	Chairperson: Representative Director, president and CEO Committee members: Full-time directors and executive officers	Semi-annually (extraordinary sessions held as required)	2 times

[Risk Management]

Climate change risks are evaluated and managed by the Sustainability Committee. Information is also shared with the Risk Management Committee as necessary.

While climate change risks are identified by the Sustainability Committee, the Environmental Sub-committee evaluates the impact of these risks and considers countermeasures, which are then rolled out to each division and Group company.

The results of the Sustainability Committee's deliberations are regularly reported to the Board of Directors, which advises and supervises the Sustainability Committee's efforts.

[Strategies]

The Star Micronics Group adopts a medium- to long-term approach when conducting scenario analyses to identify climate change risks and opportunities. In this manner, every effort is made to properly reflect the impact of risks and opportunities in strategic plans.

In specific terms, the Group refers to scenarios* published by the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) aimed at achieving the objective put forward under the Paris Agreement of holding the average increase in global temperatures to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C. Accordingly, the Group is conducting two analyses, based on a 1.5°C scenario and a 4°C scenario that assumes greenhouse gas emissions at the current level, to assess the significance of the impact on business activities.

* Main reference scenarios

・ 1.5℃ scenario: IEA NZE, IPCC 1-1.9　　・ 4℃ scenario: IPCC SSP5-8.5

Risks and Opportunities Identified

Classification		Item	Financial Impact		Countermeasures
			1.5 ℃	4 ℃	
Transition Risk	**Introduction of a carbon tax**	Surge in commodity prices and an increase in costs fueled by higher direct and indirect expenses owing to the introduction of a carbon tax.	Large	Small	• Switch to energy-saving equipment • Promote operating efficiency
	Tighten GHG emissions regulations	Increase in various costs (including capital expenditures and R&D expenses) in line with efforts to comply with environmental regulations	Large	Small	• Switch to energy-saving equipment
	Change in the energy mix	Increase in energy costs commensurate with a decrease in the share of fossil energy	Medium	Small	• Switch to energy-saving equipment • Promote operating efficiency
	Customer reputation	Decrease in sales due to changes in customer needs and product demand as a result of fluctuations in the weather	Medium	Small	• Create environmentally friendly products
	Investor reputation	Increase in costs associated with the disclosure of information on efforts to address environmental and other issues	Medium	Small	• Enhance corporate value through the proactive disclosure of ESG information
Physical risks	**Increase in average temperatures**	Increase in facility management, utility, and other costs associated with rising temperatures	Small	Medium	• Switch to energy-saving equipment • Promote operating efficiency
	Intensification of extreme weather conditions	Decrease in sales and increase in restoration costs due to the shutdown of production plants and supplier damage attributable to floods and torrential rains	Medium	Large	• Strengthen BCP measures
Opportunities	**Products and services**	Increase in sales owing to the market release of products that comply with regulations and upswing in demand	Large	Small	• Create environmentally friendly products
		Incidence of new component machining needs in line with the shift to EVs; increase in sales on the back of optimal processing machine sales	Large	Small	• Create environmentally friendly products
	Resource efficiency	Decrease in manufacturing costs due to switch to energy-saving equipment and improved operating efficiency	Medium	Small	• Switch to energy-saving equipment • Promote operating efficiency
	Intensification of extreme weather conditions	Increases in demand for air conditioning equipment as well as orders for machine tools from plants producing related parts resulting in higher sales	Small	Medium	• Create environmentally friendly products
		Increase in sales on the back of steps taken to strengthen the service structure and systems and growing reputation among customers for prompt after-sales service	Medium	Large	• Strengthen the service network

[Indicators and Targets]

1. Indicators

The Star Micronics Group uses greenhouse gas emissions as an indicator to manage climate-related risks and opportunities.

2. Targets

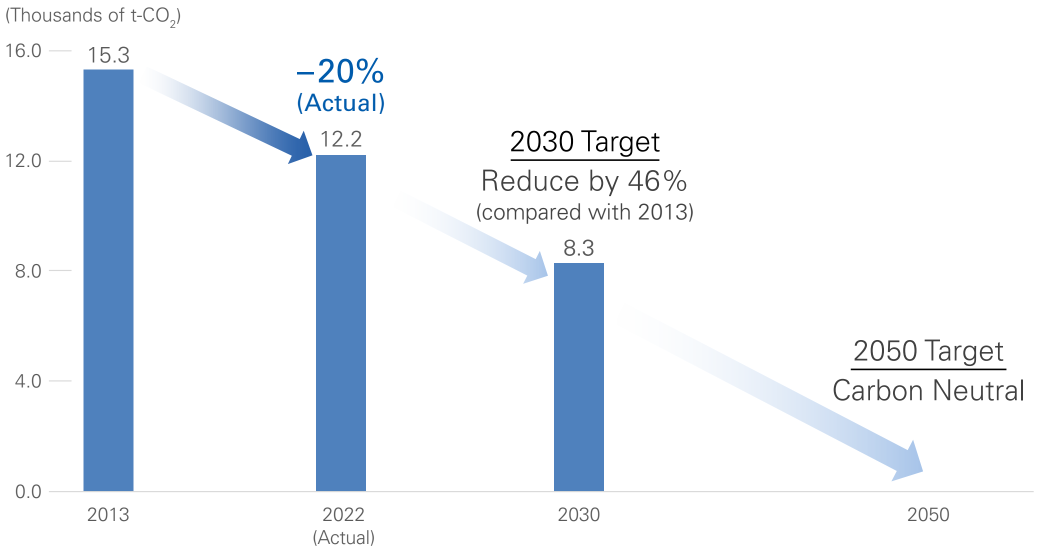
The Star Micronics Group has set targets for the reduction of scope 1 and 2 GHG emissions of 46% in 2030 compared with 2013 and virtually zero emissions by fiscal 2050. To this end, the Group is promoting reductions in greenhouse gas emissions in a bid to achieve the 1.5°C scenario.

As part of this effort, Star Micronics has been promoting the selection and concentration of its global production base network and is working to improve productivity since 2013. Through these and other means, the Group is endeavoring to reduce GHG emissions.

Looking ahead, plans are in place to renew domestic production bases. The Group is committed to strengthening measures aimed at achieving reduction targets. These efforts include the use of renewable energy while striving to improve production efficiency by introducing energy-saving equipment and promoting DX.

3. Results

Results in reducing scope 1 and 2 GHG emissions are presented as follows:



* Scope 1 and 2, including non-consolidated and major consolidated subsidiaries

Material issues	Targets
• Fostering and utilizing diverse human resources	• Setting targets for women in management and monitoring progress; career training and support • Expanding and sustaining education and training programs for global HR development

2022 Progress
• Increased the percentage of women in management (increased from 1.8% to 5.9%) • Strengthened education and training programs • Pushed forward with steps to establish a new human resource structure and systems

Human Resource Strategy

Guided by its Sustainability Policy, Star Micronics places considerable emphasis on its human resource strategy based on the core concept of the Company and employees growing together and contributing to society. In 2022, the Company pushed forward the following strategies in an effort to achieve its HR strategy goals of building an environment in which all employees can maximize their potential regardless of gender, age, or race.

HR Strategy Goals

Building an environment in which all employees can maximize their potential regardless of gender, age, or race

1. Constructing new human resource systems

Strategy	Progress and Plans
• Rolling out a system for professionals (specialist training) • Rolling out a benefit framework commensurate with roles and responsibilities	• Putting in place a framework for a new human resource structure and systems • Taking steps to reform the Company's retirement benefits and pension plan (introducing a defined contribution pension plan) • Extending the retirement age (currently implementing a progressive transition from the age of 60 to 65)

2. Enhancing diversity

Strategy	Progress and Plans
• Enhancing women's empowerment (KPI: 10% or more women in managerial positions by 2030) • Fostering a corporate climate and changing awareness (manager training, developing flexible and diverse working styles, etc.)	• Increasing the percentage of women in management (increased from 1.8% to 5.9% (as of the end of Dec 2022)) • Appointing female directors • Introducing training during maternity leave (strengthening career support during maternity leave)

Ratio of Female Workers (Non-consolidated)

(%)

	2018	2019	2020	2021	2022
Employees	19.6	19.9	19.5	19.8	20.3
Managers	1.1	1.1	1.1	1.8	5.9

3. Reinforcing education and training programs: Developing employee autonomy, global human resource

Strategy	Progress and Plans
• Enhancing upskilling and reskilling initiatives • Strengthening global human resource development (establishing a medium- to long-term HR development cycle) • Increasing education and training outlays per employee	• Upgrading and expanding self-development support systems (encouraging the acquisition of technical qualifications, providing online study assistance, etc.) • Introducing DX-related training (reskilling) • Introducing cross-border learning (joint training with other companies); (developing next generation leaders) • Strengthening health-related training (mindfulness, health seminars for women, dental oral care seminars, etc.)

Expenses Allocated for Education and Training (Non-consolidated)

	2018	2019	2020	2021	2022
Education and training outlays per employee (Yen)	¥18,726	¥27,179	¥37,462	¥52,731	¥89,084
Total training expenses (Thousands of yen)	¥9,560	¥13,209	¥16,858	¥22,780	¥40,266

SUSTAINABILITY

CORPORATE GOVERNANCE

Material issues	Targets
• More rigorous corporate governance	• Building a more fair and transparent governance framework by addressing Corporate Governance Code guidelines

2022 Progress

• Disclosed details of a skills matrix for directors
• Strengthened the diversity of the Board of Directors (appointed female directors)
• Enhanced transparency through the Nomination and Compensation Committee

At Star Micronics, our basic approach to corporate governance is based on fulfilling our social responsibilities as a company. To this end, we strive to achieve appropriate and efficient management with a view to the sustained enhancement of corporate value and the realization of a sustained society, and to distribute the results of these efforts appropriately to shareholders and other stakeholders.

Star Micronics has adopted the structure of a company with an audit and supervisory committee in order to strengthen the supervisory function of its Board of Directors and to enhance its corporate governance capabilities.

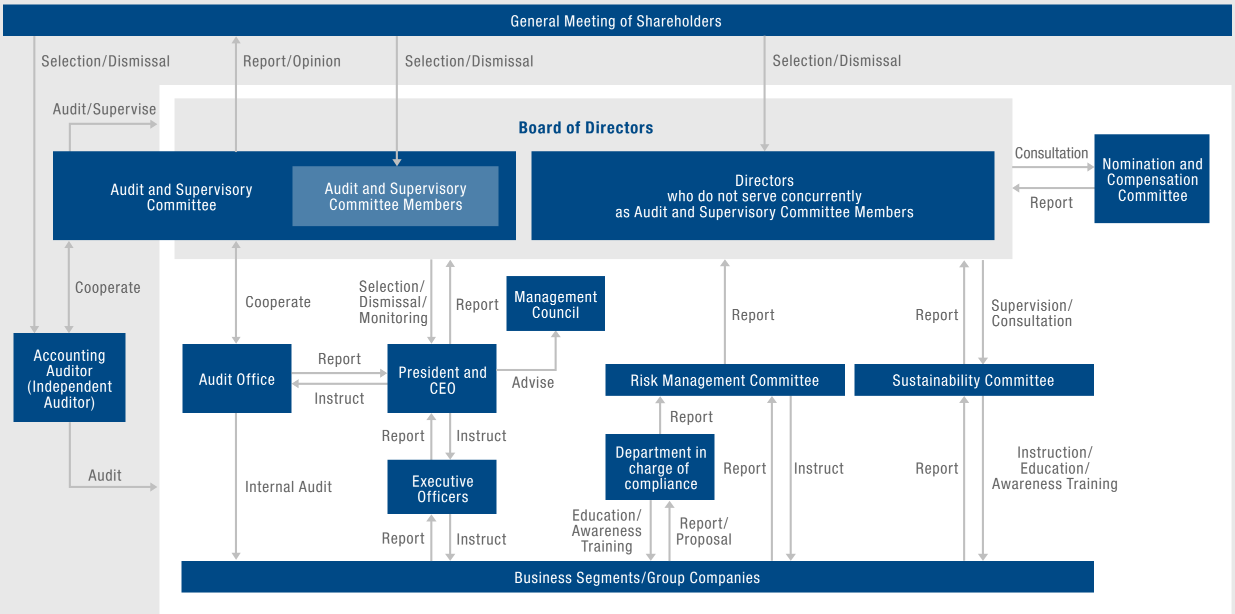
Furthermore, an executive officer system was introduced to Star Micronics to speed up and raise the efficiency of business execution even further, and ensure that management as an organization is flexible and capable of prompt, rational decisions for executing business.

The Board of Directors is comprised of three Directors (one of whom is an independent Outside Director, excluding Directors who serve as Audit and Supervisory Committee Members) and three Directors who serve as Audit and Supervisory Committee Members (all of whom are independent Outside Directors), and is responsible for appropriate and efficient management decisions while supervising the execution of Directors' duties from an independent standpoint.

The Audit and Supervisory Committee is comprised of three independent Outside Directors. In addition to auditing the activities of Directors in the general conduct of their duties, the Audit and Supervisory Committee is responsible for auditing the Company's accounting statements and related documentation and preparing audit reports in accordance with audit policies and plans determined by the Audit and Supervisory Committee. Moreover, the Committee undertakes audits in conjunction with accounting auditors as well as internal audit and related departments.

On February 9, 2021, the Company established the Nomination and Compensation Committee as an arbitrary advisory body to the Board of Directors to increase the transparency and objectivity of procedures related to the nomination and compensation paid to Directors and Executive Officers. The Nomination and Compensation Committee is comprised of five Directors (four of whom are independent Outside Directors) appointed through a resolution of the Board of Directors. The Committee deliberates and reports on matters related to the selection, dismissal and compensation paid to Directors and Executive Officers in line with Board of Directors' consultations.

STAR MICRONICS' CORPORATE GOVERNANCE SYSTEM



Compensation of Directors and Audit and Supervisory Committee Members

Members of the Board of Directors at Star Micronics are compensated in accordance with the Company's earnings performance. Their package consists of basic compensation that is paid monthly on a fixed basis, a yearly bonus as performance-based compensation and stock compensation provided as a medium- to long-term incentive. In view of the tasks that they are asked to perform, Directors who concurrently serve as Audit and Supervisory Committee Members and Outside Directors receive only the basic compensation.

The standard amount of basic compensation paid to Directors (excluding Directors who concurrently serve as Audit and Supervisory Committee Members) is determined by a resolution of the Board of Directors based on the Company's performance as well as the status and position of each Director. Together with the bonus payment outlined below, the basic compensation paid to each Director shall not exceed ¥300 million annually. Of this total, the amount paid to Outside Directors shall not exceed ¥20 million annually.

The amount of basic compensation paid to each Director who concurrently serves as an Audit and Supervisory Committee Member shall not exceed ¥30 million annually and is determined through deliberations by the Audit and Supervisory Committee.

The total amount of bonuses paid to Directors is calculated by multiplying profit attributable to owners of the parent by a payment rate determined by the Company so as to function as an incentive to improve business performance. The amount of each bonus paid to individual Directors (excluding Directors who concurrently serve as Audit and Supervisory Committee Members and Outside Directors) shall be determined in line with the status and position of each Director based on the calculation method determined by the Board of Directors. After consulting with the Nomination and Compensation Committee, an arbitrary advisory body that is comprised of a majority of independent Outside Directors, and in line with the Committee's report, the Company resolved that the payment of Directors' bonuses fell within the scope of performance-based compensation stipulated under Article 34, Paragraph 1.3 of Japan's Corporation Tax Act at a Board of Directors' meeting held on March 23, 2023.

Turning to the matter of stock compensation, an amount is allocated in line with the status and position of each Director (excluding Directors who serve as Audit and Supervisory Committee Members as well as Outside Directors) as determined by a resolution of the Board of Directors. This amount shall comprise Ordinary Stock Options granted as a medium-term incentive and not exceed ¥20 million annually.

Meanwhile, in addition to granting incentives in a bid to improve the Company's corporate value on a sustainable basis, Star Micronics allocates an amount of Restricted Stock that shall not exceed ¥80 million annually in line with the status and position of each Director (excluding Directors who serve as Audit and Supervisory Committee Members as well as Outside Directors) as determined by a resolution of the Board of Directors as a long-term incentive to further promote shared value with its shareholders.

Breakdown of Compensation of Directors and Audit and Supervisory Committee Members

Director rank	Total compensation, etc. (¥ million)	Total compensation by category (¥ million)					Headcount of those eligible
		Fixed compensation	Performance-based Compensation	Stock Options	Restricted Stock Compensation	Non-monetary compensation, etc. in items on the left	
Directors (excluding Audit and Supervisory Committee Members) (excluding Outside Directors)	221	123	54	—	44	44	3
Directors (Audit and Supervisory Committee Members) (excluding Outside Directors)	—	—	—	—	—	—	—
Outside Directors and Audit and Supervisory Committee Members	25	25	—	—	—	—	5

Notes:

1. The figures for Restricted Stock Compensation and Performance-based Compensation are the monetary amounts recorded as expenses in the fiscal year under review.
2. The aforementioned amount of Director compensation does not include salaries paid to Directors who are also employees of the Company.
3. Star Micronics has paid ¥55 million in total to one Director of the Board upon their retirement. These payments are for severance of a retirement benefit allowance for Directors that was discontinued pursuant to a resolution of the Ordinary General Meeting of Shareholders for the 82nd Period held on May 24, 2007.

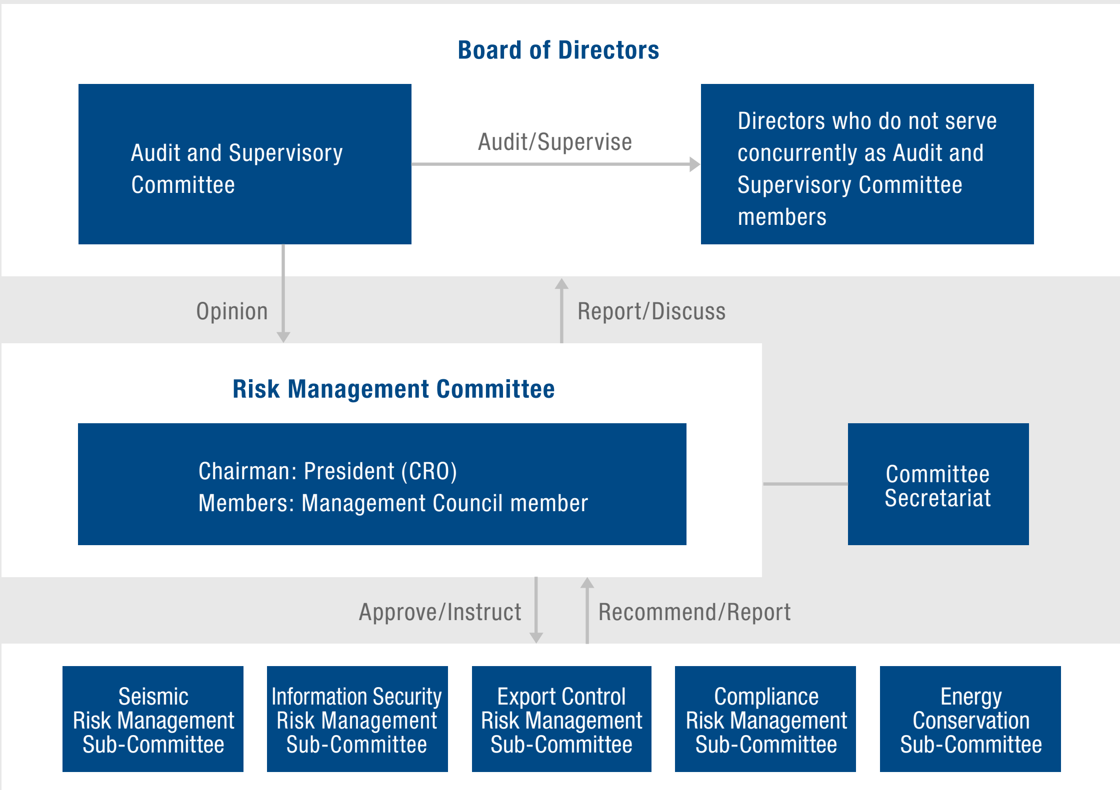
Internal Control System

Star Micronics strives to maintain an internal control system that will enable proper and efficient management to drive a continuous increase in corporate value. As far as its compliance structure and systems are concerned, in addition to formulating the Star Micronics Group Sustainability Code of Conduct, the Company is working to ensure thoroughgoing compliance through various measures. This includes putting in place rules and organizations. In addition, a department dedicated to corporate social responsibility (CSR) spearheads our compliance activities. This department plays a central role in providing reminders and education on compliance to the Group's Directors, Executives and Employees, and is charged with holding periodic committee meetings and monitoring the status in regard to the Group's adherence with all relevant laws and regulations. Star Micronics also has an appropriate internal control and whistleblower system for ensuring the reliability of its financial reporting, as stipulated in the Financial Instruments and Exchange Law of Japan.

Risk Management

Star Micronics approaches the management of material risks such as legal issues, natural disasters, environmental considerations and export management in an organized and systematic manner. Departments and individuals are assigned as needed to manage a specific risk, and take responsibility for establishing rules and manuals, and so forth, for managing the risks. They also implement programs to alert, educate and prepare the Group's Directors, Executives and Employees against the risks. There is also a committee which meets periodically to monitor and manage risks for the Group.

STAR MICRONICS' RISK MANAGEMENT SYSTEM



Consolidated Eleven-Year Summary

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Eleven fiscal years

	Dec. 2022	Dec. 2021	Dec. 2020
For the year:			
Net sales	**¥87,368**	¥64,360	¥45,671
Cost of sales	**53,526**	41,756	30,349
Selling, general and administrative expenses	**19,917**	15,189	13,149
Operating income	**13,925**	7,415	2,173
Other income (expenses) – net	**287**	549	715
Income before income taxes	**14,212**	7,964	2,888
Income taxes	**3,823**	2,174	1,131
Net income (loss) attributable to noncontrolling interests	**90**	50	25
Net income attributable to owners of the parent	**10,299**	5,740	1,732
Net cash provided by operating activities	**7,523**	9,601	6,843
Net cash (used in) provided by investing activities	**(2,633)**	741	(1,253)
Free cash flows	**4,890**	10,342	5,590
Net cash (used in) provided by financing activities	**(4,624)**	(7,559)	(2,136)
Per share:			
Basic net income	**¥271.14**	¥150.83	¥ 49.07
Diluted net income	**270.01**	142.38	42.46
Cash dividends applicable to the year	**70.00**	58.00	58.00
At year-end:			
Current assets	**¥80,073**	¥65,707	¥54,893
Net property, plant and equipment	**15,697**	14,309	14,272
Total assets	**99,539**	82,361	71,622
Long-term liabilities	**1,347**	1,128	1,266
Total equity	**73,088**	61,728	49,822
Stock exchange price per share of common stock:			
Highest	**¥1,858**	¥1,893	¥1,720
Lowest	**1,318**	1,416	945
Selected financial indicators:			
Equity ratio (%)	**73.0**	74.1	68.2
Return on equity (%)	**15.4**	10.4	3.5
Dividend payout ratio (%)	**25.8**	38.5	118.2
Dividend on equity (%)	**4.0**	3.9	4.1

*Effective from the fiscal period ended December 31, 2018, Star Micronics Co., Ltd. changed its account settlement date from the end of February to December 31. As a transitional period, the consolidated fiscal period for the fiscal period ended December 31, 2018 is based on and presented for the 10-month period from March 1, 2018 to December 31, 2018 for companies that fall within the scope of consolidation whose conventional account settlement date is February 28 and the 12-month period from January 1, 2018 to December 31, 2018 for companies that fall within the scope of consolidation whose account settlement date is December 31.

Millions of yen (Except for per share data)

Dec. 2019	Dec. 2018	Feb. 2018	Feb. 2017	Feb. 2016	Feb. 2015	Feb. 2014	Feb. 2013
¥60,652	¥65,940	¥60,773	¥48,937	¥54,458	¥50,958	¥43,482	¥37,858
38,330	40,478	38,511	30,825	33,558	31,355	28,047	24,683
16,505	15,750	16,052	14,505	15,165	14,126	12,829	11,595
5,817	9,712	6,210	3,607	5,735	5,477	2,606	1,580
(485)	(1,029)	149	224	(383)	605	40	2,140
5,332	8,683	6,359	3,831	5,352	6,082	2,646	3,720
1,486	1,764	487	572	1,530	1,285	1,400	1,330
(208)	124	91	78	101	101	103	90
4,054	6,795	5,781	3,181	3,721	4,696	1,143	2,300
5,124	6,089	8,923	5,338	3,107	4,326	2,597	483
(3,150)	(2,950)	(5,013)	813	(1,074)	(2,501)	(2,455)	(1,908)
1,974	3,139	3,910	6,151	2,033	1,825	142	(1,425)
(3,015)	(3,766)	(2,926)	139	(2,180)	(1,568)	(1,394)	(1,202)
¥113.72	¥186.04	¥155.68	¥ 81.77	¥ 87.98	¥111.36	¥ 27.17	¥ 54.66
99.34	163.42	136.90	74.69	87.69	111.05	27.14	
56.00	54.00	52.00	48.00	46.00	44.00	34.00	30.00
¥56,830	¥59,914	¥59,635	¥53,172	¥50,367	¥50,533	¥41,233	¥35,827
15,542	15,521	14,076	12,926	14,360	15,309	14,327	13,476
76,394	79,935	77,363	68,351	67,828	70,261	59,303	52,564
9,675	10,046	9,697	9,935	2,021	617	524	303
50,790	49,312	47,447	43,755	50,200	51,903	45,698	40,710

Yen

¥1,893	¥2,270	¥2,480	¥1,770	¥2,238	¥1,885	¥1,422	¥988
1,258	1,332	1,588	1,023	1,125	1,115	857	647
65.2	60.3	60.1	62.8	72.7	72.4	75.5	76.1
8.3	14.3	12.9	6.9	7.4	9.8	2.7	6.0
49.2	29.0	33.4	58.7	52.3	39.5	125.1	54.9
4.1	4.1	4.3	4.1	3.9	3.9	3.4	3.3

Management's Discussion and Analysis

OVERVIEW (Years ended December 31, 2022 and 2021)

Business Environment

Looking at 2022, global economic conditions remained uncertain. In addition to the effects of COVID-19, this uncertainty was due to a variety of factors including the accelerated pace of global inflation, soaring resource prices triggered by the prolonged Ukraine crisis, tight supply of such components and parts as semiconductors, and sharp fluctuations in foreign currency exchange rates. By geographic region, the U.S. economy exhibited a recovery trend on the back of steady consumer spending. In contrast, economic conditions throughout Europe were generally weak. In Asia, China's economy remained firm despite significant restrictions on economic activities owing to the government's decision to adopt a zero-corona policy. On the domestic front, Japan witnessed a modest economic recovery.

Net Sales

(Millions of yen)

	2021	2022	Change (%)
	¥64,360	**¥87,368**	35.7

In each of the major markets in which the Star Micronics Group operates, demand for POS printers was strong especially in the U.S. At the same time, overseas demand for the Group's mainstay machine tools remained generally high with firm demand also in Japan.

Operating Income

(Millions of yen)

	2021	2022	Change (%)
	¥7,415	**¥13,925**	87.8

Operating income came in at ¥13,925 million owing mainly to the increase in sales of machine tools.

Net Income Attributable to Owners of the Parent

(Millions of yen)

	2021	2022	Change (%)
	¥5,740	**¥10,299**	79.4

Net income attributable to owners of the parent amounted to ¥10,299 million largely reflecting the increase in net sales.

Cash Dividends per Share

(Yen)

	2021	2022	Change (yen)
	¥ 58	**¥70**	¥12

The annual cash dividend for the year under review was ¥70 per share, up ¥12 yen per share compared with the previous year. As far as the period-end dividend is concerned, Star Micronics also paid a special dividend of ¥10 per share.

Total Assets

(Millions of yen)

	2021	2022	Change (%)
	¥82,361	**¥99,539**	20.9

Amid foreign currency exchange rates affecting the consolidated balance sheet as a whole as of the end of year under review, total assets increased compared with the end of the previous year owing mainly to the upswing in such accounting line items as inventories and trade notes and accounts receivable.

Free Cash Flows

(Millions of yen)

	2021	2022	Change (%)
	¥10,342	**¥4,890**	(52.7)

Despite the increase in income before income taxes, free cash flows came in at ¥4,890 million largely reflecting the increase in inventories.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

(Millions of yen)

	2021	2022	Change (%)
	¥1,926	**¥3,390**	76.0

Capital expenditures amounted to ¥3,390 million. This largely included expenditure on equipment to expand capacity in the Machine Tools Segment.

Net Sales by Region

(Millions of yen)

	2021	2022	Change (%)
Japan	¥ 8,072	**¥ 9,037**	12.0
USA	17,315	**27,904**	61.2
China	14,543	**17,112**	17.7
Germany	6,076	**8,743**	43.9
Others	18,354	**24,572**	33.9

INCOME ANALYSIS

Achieved record high net sales and substantial increases in both revenue and earnings

Star Micronics reported record high consolidated net sales of ¥87,368 million (US$656,902 thousand) in 2022, up ¥23,008 million, or 35.7%, compared with the previous year. Looking at 2022, global economic conditions remained uncertain. In addition to the effects of COVID-19, this uncertainty was due to a variety of factors including the accelerated pace of global inflation, soaring resource prices triggered by the prolonged Ukraine crisis, tight supply of such components and parts as semiconductors, and sharp fluctuations in foreign currency exchange rates. By geographic region, the U.S. economy exhibited a recovery trend on the back of steady consumer spending. In contrast, economic conditions throughout Europe were generally weak. In Asia, China's economy remained firm despite significant restrictions on economic activities owing to the government's decision to adopt a zero-corona policy. On the domestic front, Japan witnessed a modest economic recovery. Under these circumstances, demand for POS printers was strong especially in the U.S. in each of the major markets in which the Star Micronics Group operates. At the same time, overseas demand for the Group's mainstay machine tools remained generally high with firm demand also in Japan.

The cost of sales came to ¥53,526 million (US$402,451 thousand), an upswing of ¥11,770 million, or 28.2%, compared with the previous year. On this basis, gross profit climbed ¥11,238 million, or 49.7%, year on year, to ¥33,842 million (US$254,451 thousand).

Selling, general and administrative (SG&A) expenses were ¥19,917 million (US$149,752 thousand), up ¥4,728 million, or 31.1%, compared with the previous year.

Taking into account the aforementioned factors, operating income surged ¥6,510 million, or 87.8%, year on year, to ¥13,925 million (US$104,699 thousand).

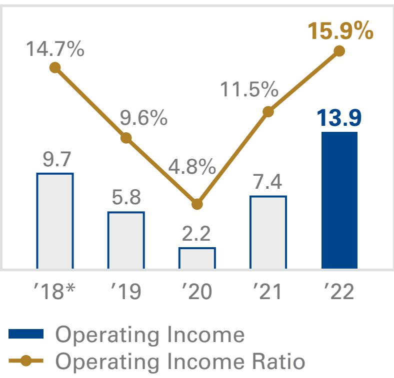
Achieved record high net income attributable to owners of the parent

In 2022, other income – net came to ¥287 million (US$2,158 thousand), down from ¥549 million in the previous year. In the year under review, Star Micronics incurred a foreign exchange loss – net of ¥76 million (US$571 thousand).

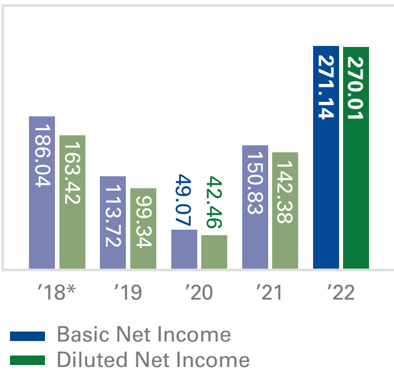
As a result, income before income taxes amounted to ¥14,212 million (US$106,857 thousand), an increase of ¥6,248 million, or 78.5%, compared with the previous year. Net income attributable to owners of the parent after deducting income taxes and net income attributable to noncontrolling interests came to ¥10,299 million (US$77,436 thousand), an upswing of ¥4,559 million, or 79.4%, year on year.

Basic net income per share was ¥271.14 (US$2.04) and diluted net income per share was ¥270.01 (US$2.03).

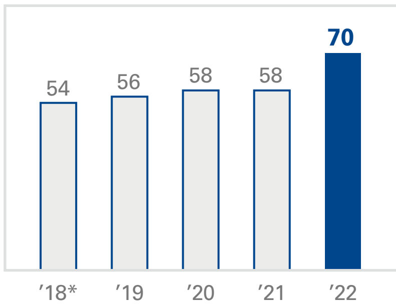
Operating Income and Operating Income Ratio
(Billions of yen, %)



Net Income per Share
(Yen)



Cash Dividends per Share
(Yen)



*The consolidated fiscal period for the fiscal period ended December 31, 2018 is based on and presented for a 10-month period for the Company and consolidated subsidiaries in Japan and a 12-month period for overseas consolidated subsidiaries.

Accounting for the payment of a special dividend, record high annual cash dividend of ¥70 per share

Star Micronics set its annual cash dividend at ¥70 (US$0.53) per share, up ¥12 per share compared with the previous year. Taking into consideration its consolidated business performance for the year under review and its record high net sales and net income attributable to owners of the parent, the Company decided to pay a special dividend of ¥10 per share as of the end of the year for a record high annual cash dividend in a bid to further upgrade and expand the return and distribution of profits to shareholders through cash dividends. Based on the aforementioned, Star Micronics' consolidated total payout ratio came in at 44.6% for the year under review. Looking ahead, the Company plans to pay an interim and year-end cash dividend of ¥30 per share each for an annual cash dividend of ¥60 per share for 2023.

Star Micronics has decided to target a consolidated total payout ratio of at least 50%, including the repurchase of its own shares, with the aim of paying a stable annual cash dividend of at least ¥60 per share as part of its shareholder return policy. As far as the Company's internal reserves are concerned, Star Micronics is committed to enhancing its corporate value while increasing shareholders' profits. At the same time, the Company will look to engage in a variety of activities including investment in future growth fields in a bid to ensure its sustainable growth.

FINANCIAL POSITION & LIQUIDITY

Increase in total assets on the back of robust orders and substantial revenue growth

Total current assets stood at ¥80,073 million (US$602,053 thousand) as pf December 31, 2022, up ¥14,366 million, or 21.9%, compared with the end of the previous year. The upswing in total current assets largely reflected year-on-year increases of ¥2,366 million, or 8.7%, to ¥29,565 million (US$222,293 thousand) in cash and cash equivalents, ¥4,203 million, or 22.7%, to ¥22,698 million (US$170,662 thousand) in trade notes and accounts receivable, and ¥7,264 million, or 40.8%, to ¥25,087 million (US$188,624 thousand) in inventories.

The balance of net property, plant and equipment climbed ¥1,388 million, or 9.7%, compared with the end of the previous year, to ¥15,697 million (US$118,023 thousand) owing mainly to a year-on-year increase in machinery and equipment of ¥1,094 million, or 5.2%, to ¥21,979 million (US$165,255 thousand).

The balance of investments and other assets grew ¥1,424 million, or 60.7%, compared with the previous year-end, to ¥3,769 million (US$28,338 thousand).

Accounting for each of these factors, the balance of total assets as of the end of year under review increase ¥17,178 million, or 20.9%, compared with the end of the previous year, to ¥99,539 million (US$748,414).

Increase in liabilities owing to upswings in such accounting line items as payables and income taxes payable

Total current liabilities stood at ¥25,104 million (US$188,752 thousand) as of December 31, 2022, an increase of ¥5,599 million, or 28.7%, compared with the end of the previous year. This increase was mainly due to year-on-year upswings of ¥2,650 million, or 17.5%, to ¥17,810 million (US$133,910 thousand) in payables, of ¥1,606 million, or 198.0%, to ¥2,417 million (US$18,173 thousand) in income taxes payable.

Total long-term liabilities climbed ¥219 million, or 19.4%, compared with the end of the previous year, to ¥1,347 million (US$10,128 thousand) as of December 31, 2022. This largely reflected the year-on-year increase in the balance of long-term debt of ¥95 million, or 12.0%, to ¥884 million (US$6,647 thousand).

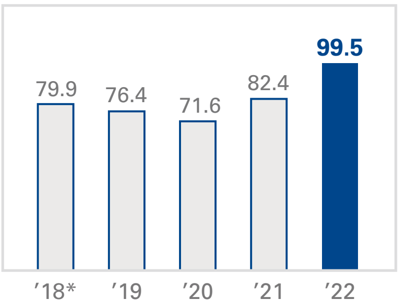
Increase in equity owing to the accumulation of retained earnings

Total equity increased ¥11,360 million, or 18.4%, compared with the end of the previous year, to ¥73,088 million (US$549,534 thousand). Despite the impact of such initiatives as the payment of cash dividends as well as the purchase and disposal of treasury stock, the increase in total equity was largely attributable to the year-on-year upswing in retained earnings of ¥8,035 million, or 19.2%, to ¥49,849 million (US$374,804 thousand) and positive turnaround in foreign currency translation adjustments to ¥3,366 million (US25,308 thousand) from a negative balance of ¥830 million as of the end of the previous year.

Accounting for the increase in total assets, the equity ratio came in at 73.0%, down 1.1 percentage points year on year. Equity per share as of December 31, 2022 climbed ¥352.13 compared with the previous year-end, to ¥1,928.77 (US$14.50).

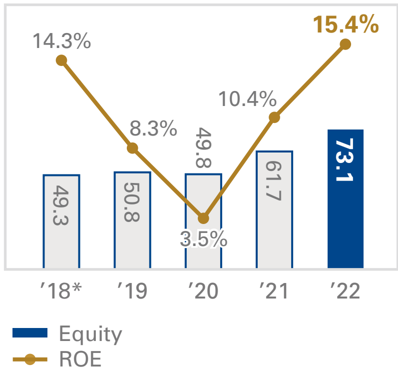
Total Assets

(Billions of yen)



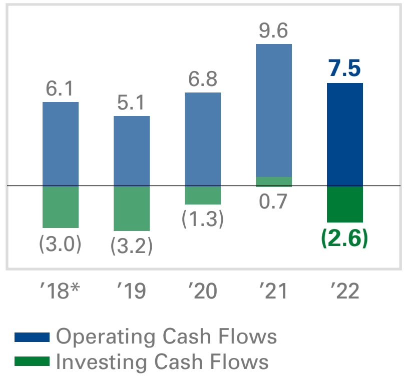
Equity and Return on Equity

(Billions of yen, %)



Cash Flows

(Billions of yen)



CASH FLOWS

Continued capital expenditure and returns to shareholders on the back of ample operating cash flow

Net cash provided by operating activities came to ¥7,523 million (US$56,564 thousand). The principal cash inflows came from income before income taxes of ¥14,212 million (US$106,857 thousand) and depreciation and amortization of ¥2,414 million (US$18,150 thousand), which exceeded the major cash outflows that emanated from the increase in inventories of ¥5,880 million (US$44,210 thousand), income taxes – paid of ¥2,465 million (US$18,534 thousand), and increase in trade receivables of ¥1,728 million (US$12,992 thousand).

Net cash used in investing activities came to ¥2,633 million (US$19,797 thousand). This largely reflected the principal cash outflow for purchases of property, plant and equipment of ¥2,170 million (US$16,316 thousand).

Net cash used in financing activities amounted to ¥4,624 million (US$34,767 thousand). This was mainly due to dividends paid to shareholders of ¥2,251 million (US$16,925 thousand) and payments for purchase of treasury stock of ¥1,960 million (US$14,737 thousand).

Taking into account the aforementioned activities as well as foreign currency translation adjustments on cash and cash equivalents of ¥2,100 million (US$15,789 thousand) and the net increase in cash and cash equivalents of ¥2,366 million (US$17,789 thousand), cash and cash equivalents stood at ¥29,565 million (US$222,293 thousand) as of December 31, 2022.

CAPITAL EXPENDITURES AND R&D EXPENSES

Investment in equipment to boost capacity in the Machine Tools Segment in 2022

In 2022, capital expenditures, which totaled ¥3,390 million (US$25,489 thousand), were largely directed toward the purchase of facilities and equipment aimed at boosting capacity in the Machine Tools Segment. In 2023, Star Micronics plans to undertake capital expenditures of ¥2,862 million focusing mainly on a large-scale renewal of the Company’s the Kikugawa Factory in the Machine Tools Segment and construction of a new building at an overseas subsidiary.

Special Products—Capital expenditures in the Special Products Segment increased ¥424 million compared with the previous year, to ¥606 million (US$4,556 thousand) in 2022. In 2023, the Company is budgeting expenditures of ¥283 million in this segment mostly for molds used in the manufacture of new products.

Machine Tools—Capital expenditures in the Machine Tools Segment climbed ¥931 million compared with the previous year, to ¥2,598 million (US$19,534 thousand), in 2022. In 2023, the Company plans to undertake capital expenditures of ¥2,474 million. This includes the large-scale renewal of the Company’s Kikugawa Factory, the construction of a new building at an overseas subsidiary, and facilities and equipment to help boost production capacity.

New product development in each segment

Underpinned by its precision processing and assembly technologies nurtured over a long period, the Star Micronics Group undertakes research and development activities to further create added value. In addition to developing products and technologies that are directly related to its current operations, the Group actively works to set up new businesses.

The principal results of research and development undertaken during the year under review were as follows, with total research and development expenses amounting to ¥1,965 million.

Special Products Segment—In the current fiscal year, Star Micronics developed the thermal 3-inch label printer mC-Label3 as well as the Star Quick Setup Utility Customizer and Star Document Markup Designer services that further enhance the added-value of its printers.

Recognizing the need to meet the label printing requirements of the food delivery market, which has greatly expanded due to the COVID-19 pandemic, mC-Label3 handles various types of paper, including strong adhesive linerless labels, and can be used for a wide range of applications, such as backyard inventory management labels and shipping labels, not to mention product labels. In addition, mC-Label3 allows users to replace parts that have worn out on their own, and comes with a video manual on how to replace and clean parts further enhancing the ease of maintenance.

As the name suggests, Star Quick Setup Utility Customizer is a service that provides additional utility value at the time of initial printer setup. As a service that customizes the initial printer setup for each POS system, Star Quick Setup Utility Customizer enables the burden incurred at the time of system installation to be significantly reduced. Star Document Markup Designer is an intuitive service that facilitates the easy creation of print data by employing proprietary text-based print data that boasts excellent readability. In eliminating the need to understand the print instructions of the Company's printers, Star Document Markup Designer has made it easy to create print data. At the same time, Star Micronics has upgraded the features of TSP100IV, the latest model in the flagship TSP100 series, as well as the mC-Print series to facilitate the link between printers and the Star Micronics Cloud Service to enable the use of these services.

Research and development expenses for the Special Products Segment totaled ¥802 million.

Machine Tools Segment—Star Micronics developed the new SD-26, a mid-range model sliding head-type automatic lathe, in the year under review.

Drawing on the concept of a single unit that can machine parts between the volume zone 8 to 26 diameter, the SD-26 is a Swiss type automatic lathe that mainly targets complex-shaped parts for automotive, hydraulic and pneumatic equipment, and medical-related use. The SD-26, which employs a gate-shaped tool post arranged on a gang-type tool post for front-end machining, is available in four types. This in turn allows users to select the most suitable tool post specification that meets their specific machining application need. In addition to the standard 4-spindle facing-type milling unit with a tool swivel control axis (B-axis), the top-of-the-line type S, which boasts an industry-first cartridge-type tool unit equipped with a 2nd B-axis mechanism that can provide swivel control, is capable of handling all types of complex-shaped parts. The gang-type tool post for back-end machining is equipped with a two turning tool holder in addition to an 8-spindle unit with Y-axis control for enhanced turning capability on the back side. To reduce environmental impact, the SD-16 is equipped with the newly developed ECO mode, which reduces standby power consumption when the machine is idle.

From a software perspective, Star Micronics promoted the development of multiple Step Cycle Pro models which provide chip-breaking operations thereby improving productivity. In addition to advancing the rollout of multiple Step Cycle Pro models, the Company has developed various functions that help improve user convenience and workability. These functions include Eccentric Turning for machining eccentric shapes with cutting tools, Easy Edit that is capable of creating simple on-machine programs, and a B-connect function that can be connected to an automatic material supply device to an Ethernet IP which in turn facilitates integrated control with the machine unit.

Research and development expenses for the Machine Tools Segment amounted to ¥1,062 million.

New Business—Star Micronics tool steps to consider the creation of new business based on the three logistics DX, store DX, and production DX themes in the year under review.

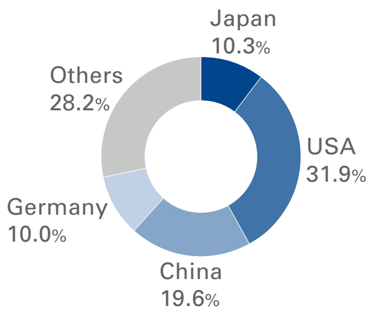
Under the logistics DX theme, the Company has cultivated market needs while developing and proposing service models that help increase user productivity. From a store DX perspective, Star Micronics collaborated with a company that possesses data communication technology that employs sound wave and initiated steps to consider digital services for retail stores and restaurants. In advancing production DX, a digital service project was launched with the Machine Tools Segment. The Company also developed and exhibited a prototype version of its machining estimation support software at the Japan International Machine Tool Fair JUMTOF2022.

Research and development expenses in this segment came to ¥100 million.

SALES FRAMEWORK AND NET SALES BY REGION

A significant portion of the Company's products are sold in international markets. Star Micronics is actively engaged in expanding its business globally and has established production and sales bases in various regions. Details of the Group's principal bases are presented as follows:

Net Sales by Region



	USA	U.K.	Germany	France	Switzerland	China		Thailand
Special Products	Star Micronics America, Inc.	Star Micronics Europe Ltd.				Star Precisions Ltd.		Star Micronics Southeast Asia Co., Ltd.
Machine Tools	Star CNC Machine Tool Corp.	Star Micronics GB Ltd.	Star Micronics GmbH	Star Machine Tool France SAS	Star Micronics AG	Shanghai Xingang Machinery Co., Ltd.	Star Micronics Manufacturing Dalian Co., Ltd.	Star Micronics (Thailand) Co., Ltd. Star Micronics Manufacturing (Thailand) Co., Ltd.

Substantial increase in net sales across all regions

In the year under review, the ratio of overseas sales as a proportion of total sales came to 89.7%, up 2.2 percentage points compared with the previous year.

By region, net sales in the U.S. amounted to ¥27,904 million (US$209,804 thousand), an increase of ¥10,589 million, or 61.2%, year on year.

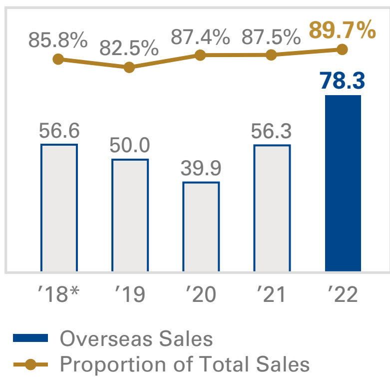
Net sales in China came to ¥17,112 million (US$128,662 thousand), a year-on-year upswing of ¥2,569 million, or 17.7%.

Net sales in Germany totaled ¥8,743 million (US$65,737 thousand), an increase of ¥2,667 million, or 43.9%, compared with the previous year.

In Japan, net sales came to ¥9,037 million (US$67,947 thousand), an upswing of ¥965 million, or 12.0%, year on year.

Overseas Sales and Proportion of Total Sales

(Billions of yen, %)



Consolidated Balance Sheet

Star Micronics Co., Ltd. and Consolidated Subsidiaries
December 31, 2022

Assets	Millions of yen 2022	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2022
Current assets:			
Cash and cash equivalents (Note 17)	¥ 29,565	¥ 27,199	$ 222,293
Marketable securities (Notes 5 and 17)	34		256
Short-term investments (Notes 6 and 17)	505	377	3,797
Receivables (Notes 7 and 17):			
Trade notes and accounts receivable	22,698	18,495	170,662
Unconsolidated subsidiaries and associated companies	52	58	391
Other	1,293	1,044	9,722
Allowance for doubtful receivables	(133)	(137)	(1,000)
Inventories (Note 8)	25,087	17,823	188,624
Prepaid expenses and other	972	848	7,308
Total current assets	80,073	65,707	602,053
Property, plant and equipment:			
Land	2,008	1,893	15,098
Buildings and structures	16,081	15,328	120,910
Machinery and equipment	21,979	20,885	165,255
Lease assets (Note 16)	121	153	910
Construction in progress	216	175	1,624
Other	1,902	1,507	14,301
Total	42,307	39,941	318,098
Accumulated depreciation	(26,610)	(25,632)	(200,075)
Net property, plant and equipment	15,697	14,309	118,023
Investments and other assets:			
Investment securities (Notes 5 and 17)	839	717	6,308
Investments in unconsolidated subsidiaries and associated companies	395	332	2,970
Deferred tax assets (Note 14)	425	599	3,196
Asset for retirement benefits (Note 10)	1,300		9,774
Other assets	810	697	6,090
Total investments and other assets	3,769	2,345	28,338
Total	¥ 99,539	¥ 82,361	$ 748,414

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen 2022	Millions of yen 2021	Thousands of U.S. dollars (Note 1) 2022
Current liabilities:			
Payables (Note 17):			
Trade notes and accounts payable	¥12,988	¥11,967	$ 97,654
Unconsolidated subsidiaries and associated companies	1	1	8
Other	4,821	3,192	36,248
Current portion of long-term debt (Note 9)	334	261	2,511
Income taxes payable (Note 14)	2,417	811	18,173
Contract liabilities	966		7,263
Accrued expenses	1,550	1,100	11,654
Other	2,027	2,173	15,241
Total current liabilities	25,104	19,505	188,752
Long-term liabilities:			
Long-term debt (Note 9)	884	789	6,647
Liability for retirement benefits (Note 10)	101	130	759
Deferred tax liabilities (Note 14)	316	125	2,376
Other	46	84	346
Total long-term liabilities	1,347	1,128	10,128
Commitments and contingent liabilities (Note 16)			
Equity (Notes 11, 12 and 24)**:**			
Common stock – authorized, 158,000,000 shares; issued, 42,465,134 shares in 2022 and 44,091,334 shares in 2021	12,722	12,722	95,654
Capital surplus	11,711	13,854	88,053
Stock acquisition rights (Note 12)	352	421	2,647
Retained earnings	49,849	41,814	374,804
Treasury stock – at cost, 4,809,548 shares in 2022 and 5,367,223 shares in 2021	(6,608)	(7,067)	(49,684)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	108	84	812
Foreign currency translation adjustments	3,366	(830)	25,308
Defined retirement benefit plans	1,481	477	11,135
Total	72,981	61,475	548,729
Noncontrolling interests	107	253	805
Total equity	73,088	61,728	549,534
Total	¥99,539	¥82,361	$748,414

See notes to consolidated financial statements.

Consolidated Statement of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Net sales	¥87,368	¥64,360	$656,902
Cost of sales (Note 10)	53,526	41,756	402,451
Gross profit	33,842	22,604	254,451
Selling, general and administrative expenses (Notes 10 and 15)	19,917	15,189	149,752
Operating income	13,925	7,415	104,699
Other income (expenses):			
Interest and dividend income	180	173	1,353
Interest expense	(32)	(19)	(241)
Foreign exchange loss – net	(76)	(2)	(571)
Gain on sale of property, plant and equipment	33	20	248
Loss on disposal of property, plant and equipment	(20)	(16)	(150)
Gain on liquidation of subsidiaries and associates		165	
Other – net	202	228	1,519
Other income (expenses) – net	287	549	2,158
Income before income taxes	14,212	7,964	106,857
Income taxes (Note 14)**:**			
Current	3,893	2,062	29,270
Deferred	(70)	112	(526)
Total income taxes	3,823	2,174	28,744
Net income	10,389	5,790	78,113
Net income attributable to noncontrolling interests	90	50	677
Net income attributable to owners of the parent	¥10,299	¥ 5,740	$ 77,436
	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 2.s, 11 and 20)**:**			
Basic net income	¥271.14	¥150.83	$2.04
Diluted net income	270.01	142.38	2.03
Cash dividends applicable to the year	70.00	58.00	0.53

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Net income	¥10,389	¥5,790	$ 78,113
Other comprehensive income (Note 19)**:**			
Unrealized gain on available-for-sale securities	24	57	180
Foreign currency translation adjustments	3,893	2,663	29,271
Defined retirement benefit plans	1,004	313	7,549
Share of other comprehensive gain in associates	65	12	489
Total other comprehensive income	4,986	3,045	37,489
Comprehensive income	¥15,375	¥8,835	$115,602
Total comprehensive income attributable to (Note 19)**:**			
Owners of the parent	¥15,251	¥8,757	$114,669
Noncontrolling interests	124	78	933

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2022

	Thousands	Millions of yen										
							Accumulated other comprehensive income (loss)					
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock–at cost	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total equity
Balance, December 31, 2020	35,304	¥12,722	¥13,058	¥429	¥38,298	¥(12,077)	¥ 27	¥(3,352)	¥ 164	¥49,269	¥ 553	¥49,822
Net income attributable to owners of the parent					5,740					5,740		5,740
Cash dividends, ¥58.0 per share					(2,224)					(2,224)		(2,224)
Purchase of treasury stock	(1,431)					(2,266)				(2,266)		(2,266)
Disposal of treasury stock	46		16			56				72		72
Conversion of convertible bonds	4,805		2,071			5,929				8,000		8,000
Retirement of treasury stock			(1,291)			1,291						
Net change in the year				(8)			57	2,522	313	2,884	(300)	2,584
Balance, December 31, 2021	38,724	¥12,722	¥13,854	¥421	¥41,814	¥ (7,067)	¥ 84	¥ (830)	¥ 477	¥61,475	¥ 253	¥61,728
Cumulative effect of accounting change					(11)					(11)		(11)
Restated balance	38,724	12,722	13,854	421	41,803	(7,067)	84	(830)	477	61,464	253	61,717
Net income attributable to owners of the parent					10,299					10,299		10,299
Cash dividends, ¥70.0 per share					(2,253)					(2,253)		(2,253)
Purchase of treasury stock	(1,221)					(1,958)				(1,958)		(1,958)
Disposal of treasury stock	153		9			206				215		215
Retirement of treasury stock			(2,211)			2,211						
Purchase of shares of consolidated subsidiaries			60							60		60
Sales of shares of consolidated subsidiaries			(1)							(1)		(1)
Net change in the year				(69)			24	4,196	1,004	5,155	(146)	5,009
Balance, December 31, 2022	37,656	¥12,722	¥11,711	¥352	¥49,849	¥ (6,608)	¥108	¥ 3,366	¥1,481	¥72,981	¥ 107	¥73,088

	Thousands of U.S. dollars (Note 1)										
						Accumulated other comprehensive income (loss)					
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock–at cost	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total equity
Balance, December 31, 2021	$95,654	$104,165	$3,166	$314,391	$(53,135)	$632	$ (6,241)	$ 3,586	$462,218	$ 1,902	$464,120
Cumulative effect of accounting change				(83)					(83)		(83)
Restated balance	95,654	104,165	3,166	314,308	(53,135)	632	(6,241)	3,586	462,135	1,902	464,037
Net income attributable to owners of the parent				77,436					77,436		77,436
Cash dividends, $0.53 per share				(16,940)					(16,940)		(16,940)
Purchase of treasury stock					(14,722)				(14,722)		(14,722)
Disposal of treasury stock		68			1,549				1,617		1,617
Retirement of treasury stock		(16,624)			16,624						
Purchase of shares of consolidated subsidiaries		451							451		451
Sales of shares of consolidated subsidiaries		(7)							(7)		(7)
Net change in the year			(519)			180	31,549	7,549	38,759	(1,097)	37,662
Balance, December 31, 2022	$95,654	$ 88,053	$2,647	$374,804	$(49,684)	$812	$25,308	$11,135	$548,729	$ 805	$549,534

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Operating activities:			
Income before income taxes	¥14,212	¥ 7,964	$106,857
Adjustments for:			
Income taxes – paid	(2,465)	(1,811)	(18,534)
Depreciation and amortization	2,414	2,127	18,150
Gain on liquidation of subsidiaries and associates		(165)	
Reversal of allowance for (provision for) doubtful receivables	(23)	18	(173)
Gain on sale and disposal of property, plant and equipment	(12)	(4)	(90)
Increase in trade receivables	(1,728)	(2,475)	(12,992)
Increase in inventories	(5,880)	(3,045)	(44,210)
(Decrease) increase in trade payables	(57)	6,009	(429)
Increase (decrease) in liability for retirement benefits	100	(130)	752
Other – net	962	1,113	7,233
Total adjustments	(6,689)	1,637	(50,293)
Net cash provided by operating activities	7,523	9,601	56,564
Investing activities:			
Purchases of property, plant and equipment	(2,170)	(1,052)	(16,316)
Proceeds from sale of property, plant and equipment	148	24	1,113
Decrease in short-term investments		1,100	
Purchases of marketable and investment securities	(200)	(600)	(1,504)
Proceeds from sale of marketable and investment securities		1,410	
Other – net	(411)	(141)	(3,090)
Net cash (used in) provided by investing activities	(2,633)	741	(19,797)
Financing activities:			
Decrease in short-term bank loans		(2,500)	
Dividends paid to shareholders	(2,251)	(2,223)	(16,925)
Dividends paid to noncontrolling shareholders of consolidated subsidiaries	(10)	(232)	(75)
Repayments to noncontrolling shareholders		(147)	
Payments for purchase of treasury stock	(1,960)	(2,269)	(14,737)
Disposal of treasury stock	119	14	895
Other – net	(522)	(202)	(3,925)
Net cash used in financing activities	(4,624)	(7,559)	(34,767)
Foreign currency translation adjustments on cash and cash equivalents	2,100	1,387	15,789
Net increase in cash and cash equivalents	2,366	4,170	17,789
Cash and cash equivalents at beginning of year	27,199	23,029	204,504
Cash and cash equivalents at end of year	¥29,565	¥27,199	$222,293
Noncash investing and financing activities:			
Increase in capital surplus due to conversion of convertible bonds		¥ 2,071	
Decrease in treasury stock due to conversion of convertible bonds		5,929	
Decrease in convertible bonds due to conversion of convertible bonds		¥ 8,000	

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2022

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside of Japan.

In addition, certain reclassifications have been made in the consolidated financial statements of the year ended December 31, 2021 to conform to the classifications used in the year ended December 31, 2022.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Star Micronics Co., Ltd. (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥133 to $1, the approximate rate of exchange at December 31, 2022.

Such translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation

The consolidated financial statements as of December 31, 2022, include the accounts of the Company and its 17 (17 in 2021) significant subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in one (one in 2021) associated company is accounted for by the equity method. Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

c. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit and investment trusts in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

d. Inventories

Inventories are stated at the lower of cost (substantially determined by the average method for the Company and its consolidated subsidiaries in Japan, and by the first-in, first-out method for the consolidated subsidiaries outside of Japan) or net selling value.

e. Marketable and Investment Securities

All investment securities are classified as available-for-sale securities.

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, nonmarketable available-for-sale securities are reduced to net realizable value by a charge to income.

Investments in limited partnerships, which are considered securities under Article 2, Clause 2 of the Japanese Financial Instruments and Exchange Act, are recorded under the equity method and based on the latest consolidated financial statements available on the reportable date ruled by the partnership contracts.

f. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries in Japan is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to substantially all of the consolidated subsidiaries outside of Japan.

The range of useful lives is principally from 15 to 50 years for buildings and structures and from 2 to 15 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

g. Long-lived Assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. Retirement and Pension Plans

The Company has a noncontributory funded pension plan covering substantially all of its employees. To provide for the payment of retirement benefits and pension plan payments to employees, the Company recorded a reserve equivalent to the amounts recognized as necessary at the end of the period under review based on the projected retirement benefits obligation and the fair value of the pension plan assets at the balance sheet date.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and prior-service cost that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 11 years no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

Domestic consolidated subsidiaries have lump-sum retirement benefit plans, and certain consolidated foreign subsidiaries have lump-sum retirement benefit plans or defined contribution pension plans.

(Additional information)
The Company has transferred a part of its defined benefit pension plan to a defined contribution pension plan applying “Accounting for Transfer between Retirement Benefit Plans” (ASBJ Guidance No. 1 of January 31, 2002, revision issued on December 16, 2016) and “Practical Solution on Accounting for Transfer between Retirement Benefit Plans” (ASBJ, PITF No. 2 of March 29, 2002, revision issued on February 7, 2007) and the retirement pension plan corresponding to the transferred portion to the defined contribution pension plan is to be terminated partially. As a result, ¥203,002 thousand is to be recorded as other income for the fiscal year ended December 31, 2023.

i. Asset Retirement Obligations

An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

j. Stock Options

Compensation expense for employee stock options that were granted on and after May 1, 2006 are recognized based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with ASBJ Statement No. 8, “Accounting Standard for Share-based Payment.” Stock options granted to nonemployees are accounted for based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

k. Bonuses to Directors and Audit and Supervisory Committee Members

Bonuses to directors and Audit and Supervisory Committee Members are accrued at the year end to which such bonuses are attributable.

l. Leases

Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet.

In March 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the previous accounting standard for lease transactions. Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information was disclosed in the notes to the lessee’s financial statements. The revised accounting standard permits leases that existed at the transition date and that do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

All other leases are accounted for as operating leases.

On January 13, 2016, International Accounting Standards Board issued IFRS No. 16, “Lease,” which requires a lessee to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months, unless the underlying asset is of low value.

On February 25, 2016, Financial Accounting Standards Board issued ASU No. 2016-02, “Leases” (Topic 842), which requires a lessee to recognize lease assets on the balance sheet the assets and liabilities for the rights and obligations created by those leases, unless the underlying asset is of low value.

Subsidiaries except for Japan and US have applied the standards of “Lease” (IFRS No. 16) and subsidiaries in US have applied the standards of “Leases” (ASU No. 2016-02).

m. Revenue Recognition

The Group engages mainly in manufacturing and sales of products in the Special Products Segment and Machine Tools Segment.

The performance obligation is satisfied at the time it is recognized that a customer has obtained control of the product based on contractual conditions and recognizes revenues when products are shipped to a customer, at the time of inspection by a customer or based on trade terms.

As considerations regarding these performance obligations are generally received within one year from the time they are satisfied, no significant financing component is involved.

n. Research and Development Costs

Research and development costs are charged to income as incurred.

o. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

p. Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

q. Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

r. Derivatives

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risks. The Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income.

The foreign exchange forward contracts employed to hedge foreign exchange exposures for export sales are measured at fair value and the unrealized gains/losses are recognized in the consolidated statement of income.

s. Per Share Information

Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds and stock acquisition rights at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense and net of tax.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

t. Accounting Changes and Error Corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections,” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections.” Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies – When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation – When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates – A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors – When an error in prior-period financial statements is discovered, those statements are restated.

u. New Accounting Pronouncements

On June 17, 2021, the ASBJ revised ASBJ Guidance No. 31, “Implementation Guidance on Accounting Standard for Fair Value Measurement” published on June 17, 2021.

When the guidance was published, it indicated that because a certain period of time may be required to discuss the fair value measurement of an investment trust with the people involved and in order to consider the notes regarding the fair value of investments in unions or other organizations reported by the net amount of equity on the balance sheet, around one year was required for discussion and consideration after publication of “Accounting Standard for Fair Value Measurement.” As a result, the guidance was revised and published on June 17, 2021.

The Company expects to apply the guidance for annual periods beginning on or after January 1, 2023, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

3. Significant Accounting Estimate

a. Deferred Tax Accounting

(1) Carrying amounts

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Deferred tax assets	¥425	¥599	$3,196

(2) Information on the significant accounting estimate

The Group accounts for a temporary difference as deferred tax assets when it satisfies recoverability based on the future taxable profit reasonably estimated. The deferred tax asset regarding tax loss carryforwards is disclosed in Note “14. Income Taxes.”

There is a high degree of uncertainty in a premise for demand and sales trend assuming future taxable profits. A variety of the factors, which the Group considered in evaluating the recoverability of deferred tax assets, may have an additional impact on taxable profit or the temporary difference, and will consequently affect the profit and loss.

b. Impairment of Long-lived Assets

(1) Carrying amounts

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Long-lived assets	¥15,697	¥14,309	$118,023

(2) Information on the significant accounting estimate

The Group recognizes the carrying amounts of the relevant asset written down to the recoverable amount, which is the higher of fair value less cost to sell or the value in use, as an impairment loss when there is any indication that the asset or asset group may be impaired. No impairment of long-lived assets was recognized in 2022.

There is high degree of uncertainty in a premise for a business plan for the calculation of value in use. In the event of an unforeseen change in the business environment adversely affecting assumptions for the valuation of assets or asset groups, an impairment may be incurred.

4. Accounting Change

(Application of “Accounting Standard for Revenue Recognition”)
The Group has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the “Revenue Recognition Accounting Standard”), etc., since the beginning of the first quarter of the fiscal year under review and recognizes revenue from goods or services to be provided at an amount expected to be received in exchange for those goods or services at the time when control over the promised goods or services is transferred to a customer. As a result, the Company now recognizes revenue at the time of acceptance inspection for certain sales, whereas it previously recognized revenue at the time of shipment, mainly in the Machine Tools Segment. In addition, consideration payable to a customer, such as sales commissions, had been previously accounted for as selling, general and administrative expenses, but is now accounted for as a net amount deducted from sales.

The Company applies the Revenue Recognition Accounting Standard in accordance with the transitional handling stipulated in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The Company adds or subtracts the amount of the cumulative effect on retained earnings from the beginning of the first quarter or from retained earnings in cases where the new accounting policies are applied retroactively to periods before the beginning of the first quarter. However, the Company applied the procedure provided for in Paragraph 86 of the Revenue Recognition Accounting Standards and did not retroactively apply the new accounting policy to contracts under which almost all revenue had been recognized before the beginning of the first quarter in accordance with the procedure before the application of the new accounting policy.

As a result, net sales decreased ¥85 million ($639 thousand), cost of sales increased ¥320 million ($2,406 thousand), and selling, general and administrative expenses decreased ¥148 million ($1,113 thousand). Operating income, ordinary income, and income before income taxes decreased ¥257 million ($1,932 thousand) each in the fiscal year under review. The impact on per share information is minimal.

The balance of retained earnings at the beginning of the fiscal year under review decreased by ¥11 million ($83 thousand).

Due to the application of the Accounting Standard for Revenue Recognition, “advances received,” which had been included in “Other” under “Current liabilities” is included in “Contract liabilities” from the first quarter of fiscal 2022. In accordance with the transitional handling stipulated in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification via new indication methods will be carried out for the previous fiscal year using the new presentation. Moreover, in accordance with the transitional handling stipulated in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, the note to “Revenue Recognition” for the previous year is not stated.

(Application of “Accounting Standard for Fair Value Measurement”)
The Company began applying the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30 issued on July 4, 2019, hereinafter the “Fair Value Measurement Accounting Standard”) and related measures at the beginning of the first quarter of the fiscal year under review. Accordingly, the Company will apply the new accounting policies stipulated in the Fair Value Measurement Accounting Standard and related measures in the future in accordance with the transitional handling stipulated in Section 19 of the same standard and Section 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 issued on July 4, 2019).

Application of this standard has no impact on consolidated financial statements.

(Application of ASC 842, “Leases”)
Effective from the first quarter of the fiscal year under review, the Company has adopted ASC 842, “Leases” with regard to overseas consolidated subsidiaries. Regarding the application of the applicable accounting standard, the cumulative effect of adopting the standard, which is permitted as a transitional measure, is recognized as of the date of adoption.

The adoption of the applicable accounting standard has an insignificant impact on the consolidated financial statements.

5. Marketable and Investment Securities

Marketable and investment securities at December 31, 2022 and 2021, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Current:			
Trust fund investments and other	¥ 34		$ 256
Total	¥ 34		$ 256
Non-current:			
Equity securities	¥214	¥218	$1,609
Corporate and other bonds	562	377	4,225
Trust fund investments and other	63	122	474
Total	¥839	¥717	$6,308

The costs and aggregate fair values of securities classified as available-for-sale at December 31, 2022 and 2021, were as follows:

	Millions of yen			
2022	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	¥104	¥74		¥178
Corporate and other bonds	600		¥38	562
Trust fund investments and other	29	34		63

	Millions of yen			
2021	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	¥104	¥45		¥149
Corporate and other bonds	400		¥23	377
Trust fund investments and other	29	38		67

	Thousands of U.S. dollars (Note 1)			
2022	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	$ 782	$556		$1,338
Corporate and other bonds	4,511		$285	4,226
Trust fund investments and other	218	256		474

Proceeds from sales of available-for-sale securities for the years ended December 31, 2022 and 2021, were nil and ¥3,009 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended December 31, 2022, were both nil, and for the year ended December 31, 2021, were ¥14 million and ¥4 million, respectively.

6. Short-term Investments

Short-term investments at December 31, 2022 and 2021, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Deposits over three-month period	¥505	¥377	$3,797
Total	¥505	¥377	$3,797

7. Trade Notes and Accounts Receivable

The Group follows the practice of including installment receivables due after one year (less unearned interest) in current assets.

Receivables due after one year (less unearned interest) amounted to ¥1,463 million ($11,000 thousand) and ¥999 million at December 31, 2022 and 2021, respectively.

8. Inventories

Inventories at December 31, 2022 and 2021, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Merchandise	¥ 865	¥ 754	$ 6,504
Finished products	13,497	8,804	101,481
Work in process	6,579	4,620	49,466
Raw materials and supplies	4,146	3,645	31,173
Total	¥25,087	¥17,823	$188,624

9. Long-term Debt

Long-term debt at December 31, 2022 and 2021, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Lease obligations	¥ 67	¥ 82	$ 504
Others	1,151	968	8,654
Total	1,218	1,050	9,158
Less: current portion	334	261	2,511
Long-term debt, less current portion	¥ 884	¥ 789	$6,647

Annual maturities of long-term debt at December 31, 2022, were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2023	¥ 334	$2,511
2024	295	2,218
2025	217	1,632
2026	169	1,271
2027	67	504
2028 and thereafter	136	1,022
Total	¥1,218	$9,158

10. Retirement and Pension Plans

The Company and certain consolidated subsidiaries have severance payment plans for employees. Under the pension plans, employees terminating their employment are entitled to pension payments in most circumstances.

Certain consolidated subsidiaries use a simplified method, which is permitted for small-sized companies in conformity with the Accounting Standard for Retirement Benefits for calculating liability for retirement benefits and retirement benefit expenses for their severance payment plans.

(1) The changes in defined benefit obligation for the years ended December 31, 2022 and 2021, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Balance at beginning of year	¥ 9,001	¥9,245	$ 67,677
Current service cost	166	169	1,248
Interest cost	95	98	714
Actuarial gains and losses	157	(89)	1,180
Benefits paid	(532)	(422)	(4,000)
Prior-service cost	(1,931)		(14,519)
Others	3	(0)	23
Balance at end of year	¥ 6,959	¥9,001	$ 52,323

(2) The changes in plan assets for the years ended December 31, 2022 and 2021, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Balance at beginning of year	¥8,871	¥8,538	$66,699
Expected return on plan assets	222	214	1,669
Actuarial gains and losses	(592)	350	(4,451)
Contributions from the employer	189	191	1,421
Benefits paid	(532)	(422)	(4,000)
Balance at end of year	¥8,158	¥8,871	$61,338

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of December 31, 2022 and 2021, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Funded defined benefit obligation	¥ 6,858	¥ 8,911	$ 51,564
Plan assets	(8,158)	(8,871)	(61,338)
Total	(1,300)	40	(9,774)
Unfunded defined benefit obligation	101	90	759
Net liability arising from defined benefit obligation	¥(1,199)	¥ 130	$ (9,015)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Liability for retirement benefits	¥ 101	¥130	$ 759
Asset for retirement benefits	(1,300)		(9,774)
Net liability arising from defined benefit obligation	¥(1,199)	¥130	$(9,015)

(4) The components of net periodic benefit costs for the years ended December 31, 2022 and 2021, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Service cost	¥ 166	¥ 169	$ 1,248
Interest cost	95	98	714
Expected return on plan assets	(222)	(214)	(1,669)
Recognized net actuarial gains and losses	250	7	1,880
Net periodic benefit costs	¥ 289	¥ 60	$ 2,173

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended December 31, 2022 and 2021, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Prior-service cost	¥1,931		$14,519
Actuarial gains and losses	(499)	¥446	(3,752)
Total	¥1,432	¥446	$10,767

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of December 31, 2022 and 2021, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Unrecognized prior-service cost	¥(1,931)		$(14,519)
Unrecognized actuarial gains and losses	(181)	¥(680)	(1,361)
Total	¥(2,112)	¥(680)	$(15,880)

(7) Plan assets

a. Components of plan assets

Plan assets as of December 31, 2022 and 2021, consisted of the following:

	2022	2021
Debt investments	34%	24%
Equity investments	22	26
General account	11	31
Others	33	19
Total	100%	100%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended December 31, 2022 and 2021, are set forth as follows:

	2022	2021
Discount rate	1.1%	1.1%
Expected rate of return on plan assets	2.5%	2.5%
Expected rate of salary increase	9.8%	4.1%

(9) Defined contribution pension plan

The amounts of the required contribution to the defined contribution plans of the consolidated subsidiaries were ¥224 million ($1,684 thousand) and ¥177 million for the years ended December 31, 2022 and 2021, respectively.

11. Equity

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below.

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by their nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective May 26, 2016. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

12. Stock Options

The stock options outstanding as of December 31, 2022, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2014 I Stock Option	5 directors	23,100 shares	June 9, 2014	¥ 1	From June 9, 2014 to June 8, 2044
2015 I Stock Option	6 directors	17,100 shares	June 15, 2015	¥ 1	From June 15, 2015 to June 14, 2045
2016 I Stock Option	3 directors 3 executive officers	36,200 shares	June 13, 2016	¥ 1	From June 13, 2016 to June 12, 2046
2016 II Stock Option	3 directors 6 executive officers 18 employees 9 directors of subsidiaries	168,000 shares	June 13, 2016	¥1,289	From June 29, 2018 to June 28, 2022
2017 I Stock Option	3 directors 4 executive officers	24,700 shares	June 12, 2017	¥ 1	From June 12, 2017 to June 11, 2047
2017 II Stock Option	3 directors 6 executive officers 19 employees 8 directors of subsidiaries	148,000 shares	June 12, 2017	¥1,830	From July 1, 2019 to June 30, 2023
2018 I Stock Option	3 directors 4 executive officers	24,400 shares	June 11, 2018	¥ 1	From June 11, 2018 to June 10, 2048
2018 II Stock Option	1 director 6 executive officers 18 employees 8 directors of subsidiaries	175,000 shares	June 11, 2018	¥2,017	From July 1, 2020 to June 30, 2025
2019 I Stock Option	3 directors 4 executive officers	42,700 shares	April 15, 2019	¥ 1	From April 15, 2019 to April 14, 2049
2019 II Stock Option	7 executive officers 16 employees 8 directors of subsidiaries	161,000 shares	April 15, 2019	¥1,805	From June 1, 2021 to May 31, 2026
2020 I Stock Option	3 directors 5 executive officers	59,900 shares	April 13, 2020	¥ 1	From April 13, 2020 to April 12, 2050
2020 II Stock Option	5 executive officers 15 employees 8 directors of subsidiaries	138,000 shares	April 13, 2020	¥1,149	From June 1, 2022 to May 31, 2027
2021 Stock Option	5 executive officers 16 employees 8 directors of subsidiaries	141,000 shares	April 12, 2021	¥1,720	From June 1, 2023 to May 31, 2028
2022 Stock Option	4 executive officers 15 employees 8 directors of subsidiaries	128,000 shares	April 11, 2022	¥1,523	From June 3, 2024 to June 2, 2029

The stock option activity were as follows:

	Shares						
	2014 I Stock Option	2015 I Stock Option	2016 I Stock Option	2016 II Stock Option	2017 I Stock Option	2017 II Stock Option	2018 I Stock Option
Year ended December 31, 2021							
Non-vested							
December 31, 2020 – Outstanding							
Granted							
Canceled							
Vested							
December 31, 2021 – Outstanding							
Vested							
December 31, 2020 – Outstanding	15,500	10,400	22,100	104,700	19,300	136,000	19,400
Vested							
Exercised				(11,000)			
Canceled							
December 31, 2021 – Outstanding	15,500	10,400	22,100	93,700	19,300	136,000	19,400
Year ended December 31, 2022							
Non-vested							
December 31, 2021 – Outstanding							
Granted							
Canceled							
Vested							
December 31, 2022 – Outstanding							
Vested							
December 31, 2021 – Outstanding	15,500	10,400	22,100	93,700	19,300	136,000	19,400
Vested							
Exercised			**(3,700)**	**(64,300)**	**(3,000)**		**(2,200)**
Canceled				**(29,400)**	**(8,000)**	**(10,000)**	
December 31, 2022 – Outstanding	**15,500**	**10,400**	**18,400**		**8,300**	**126,000**	**17,200**
Exercise price	¥ 1 $ 0	¥ 1 $ 0	¥ 1 $ 0	¥1,289 $ 10	¥ 1 $ 0	¥1,830 $ 14	¥ 1 $ 0
Average stock price at exercise			¥1,573 $ 12	¥1,674 $ 13	¥1,577 $ 12		¥1,577 $ 12
Fair value price at grant date	¥1,209 $ 9	¥1,995 $ 15	¥ 988 $ 7	¥ 165 $ 1	¥1,384 $ 10	¥ 246 $ 2	¥1,644 $ 12

	Shares						
	2018 II Stock Option	2019 I Stock Option	2019 II Stock Option	2020 I Stock Option	2020 II Stock Option	2021 Stock Option	2022 Stock Option
Year ended December 31, 2021							
Non-vested							
December 31, 2020 – Outstanding			161,000		138,000		
Granted						141,000	
Canceled							
Vested			(161,000)				
December 31, 2021 – Outstanding					138,000	141,000	
Vested							
December 31, 2020 – Outstanding	166,000	34,000		59,900			
Vested			161,000				
Exercised							
Canceled							
December 31, 2021 – Outstanding	166,000	34,000	161,000	59,900			
Year ended December 31, 2022							
Non-vested							
December 31, 2021 – Outstanding					138,000	141,000	
Granted							**128,000**
Canceled							
Vested					**(138,000)**		
December 31, 2022 – Outstanding						**141,000**	**128,000**
Vested							
December 31, 2021 – Outstanding	166,000	34,000	161,000	59,900			
Vested					**138,000**		
Exercised		**(3,800)**		**(6,600)**	**(32,000)**		
Canceled		**(15,100)**		**(19,200)**			
December 31, 2022 – Outstanding	**166,000**	**15,100**	**161,000**	**34,100**	**106,000**		
Exercise price	¥2,017 $ 15	¥ 1 $ 0	¥1,805 $ 14	¥ 1 $ 0	¥1,149 $ 9	¥1,720 $ 13	¥1,523 $ 11
Average stock price at exercise		¥1,577 $ 12		¥1,577 $ 12	¥1,742 $ 13		
Fair value price at grant date	¥ 308 $ 2	¥1,608 $ 12	¥ 352 $ 3	¥ 866 $ 7	¥ 157 $ 1	¥ 296 $ 2	¥ 226 $ 2

The assumptions used to measure fair value of the 2022 Stock Options were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	32.900%
Estimated remaining outstanding period:	4.6 years
Estimated dividend:	¥58.00 per share
Risk free interest rate:	(0.006)%

13. Restricted Stock Compensation

The restricted stock compensation outstanding as of December 31, 2022, was as follows:

Restricted Stock Compensation	Persons Granted	Number of Shares Granted	Date of Grant
2021 Restricted Stock Compensation	3 directors 4 executive officers	34,500 shares	April 22, 2021
2022 Restricted Stock Compensation	3 directors 4 executive officers	36,800 shares	April 21, 2022

Notes: 1. The transfer restriction period is from the grant date to the date immediately after retiring the position of either a director or an executive officer.
2. The transfer restrictions on all allotted stock shall be lifted upon the expiration of the transfer restriction period provided that the eligible directors, etc., continuously hold the position of company director or executive officer of the company who does not serve as a director from the date of commencement of the execution of duties until immediately before the conclusion of the first general meeting of shareholders thereafter (if the allottee is an executive officer of the company who does not serve as a director, from the starting date of the fiscal year that includes the grant date until the end of the current fiscal year.)

The restricted stock compensation activity was as follows:

	Shares	
	2021 Restricted Stock Compensation	2022 Restricted Stock Compensation
Year ended December 31, 2021		
December 31, 2020 – Outstanding		
Granted	34,500	
Forfeited		
Released		
December 31, 2021 – Outstanding	34,500	
Year ended December 31, 2022		
December 31, 2021 – Outstanding	34,500	
Granted		**36,800**
Forfeited	(11,700)	**(12,500)**
Released	(2,000)	
December 31, 2022 – Outstanding	20,800	**24,300**
Fair value price at grant date	¥1,622 $ 12	¥1,509 $ 11

14. Income Taxes

The Company and its consolidated subsidiaries in Japan are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 29.9% for the years ended December 31, 2022 and 2021.

Consolidated subsidiaries outside of Japan are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at December 31, 2022 and 2021, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Deferred tax assets			
Unrealized profit on inventories	¥ 953	¥ 376	$ 7,165
Accrued bonuses	372	275	2,797
Depreciation	368	339	2,767
Liability for retirement benefits	265	33	1,993
Inventories	208	166	1,564
Tax loss carryforwards		360	
Impairment loss		26	
Other – net	741	515	5,571
Less valuation allowance	(258)	(290)	(1,940)
Total	2,649	1,800	19,917
Deferred tax liabilities			
Undistributed earnings of associated companies	(1,645)	(1,136)	(12,368)
Asset for retirement benefits	(631)		(4,744)
Other – net	(264)	(190)	(1,985)
Total	(2,540)	(1,326)	(19,097)
Net deferred tax assets (liabilities)	¥ 109	¥ 474	$ 820

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of December 31, 2022 and 2021, were as follows:

	Millions of yen						
2021	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards					¥8	¥352	¥360
Less valuation allowances for tax loss carryforwards							
Net deferred tax assets relating to tax loss carryforwards					¥8	¥352	¥360

No material tax loss carryforwards were recognized in 2022.

Notes: 1. The amounts of tax loss carryforwards were multiplied by the normal effective statutory tax rates.
2. The deferred tax assets relating to tax loss carryforwards for the year ended December 31 2021, were ¥360 million. The Company expects to recover the total amount of the tax loss carryforwards through the estimated future taxable profits.

A reconciliation between the normal effective statutory tax rate for the years ended December 31, 2022 and 2021, and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	2022	2021
Normal effective statutory tax rate	**29.9%**	29.9%
Effect of foreign tax rate differences	**(4.0)**	(4.6)
Undistributed earnings of associated companies	**2.6**	5.9
Unrealized profit on inventories	**(1.3)**	(2.0)
Research and development tax credits	**(0.8)**	(0.9)
Valuation allowance	**(0.2)**	0.0
Other – net	**0.7**	(1.0)
Actual effective tax rate	**26.9%**	27.3%

15. Research and Development Costs

Research and development costs charged to income were ¥1,966 million ($14,782 thousand) and ¥1,650 million for the years ended December 31, 2022 and 2021, respectively.

16. Leases

The Company and its consolidated subsidiaries lease certain machinery, computer equipment, office space and other assets.

Obligations under noncancelable operating leases at December 31, 2022 and 2021, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	**2022**
Due within one year		¥ 50	
Due after one year		299	
Total		¥349	

17. Financial Instruments and Related Disclosures

(1) Group Policy for Financial Instruments

The Group invests cash surpluses in low-risk financial instruments. Derivatives are used mainly to manage foreign exchange risks, not for speculative purposes.

(2) Nature, Extent of Risks Arising from, and Risk Management for Financial Instruments

Trade receivables, such as trade notes and accounts receivable, are exposed to customer credit risk. The Group manages its credit risk from receivables on the basis of its internal guidelines, which include monitoring of the payment term and balance of each customer. The Group also periodically checks the credit status of key customers.

Marketable securities and investment securities, which are mainly debt instruments, are exposed to market risk. The Group periodically monitors market values of these securities and reports them to the management.

Trade payables, such as trade notes and accounts payable, are mostly due within one year.

The Group uses forward foreign exchange contracts to manage exchange risks arising from receivables and payables denominated in foreign currencies. Derivative transactions entered into by the Group have been made in accordance with internal policies which prescribe the authorization, and the result is reported to management. The Group also limits the counterparties of these derivatives to major international financial institutions to reduce credit risk.

With regard to trade payables, the Group is exposed to liquidity risk. The Group manages this risk through periodic financial planning by each Group company.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are based on their quoted market price, if available. If a quoted price is not available, other rational valuation techniques are used instead.

(a) Fair Value of Financial Instruments

	Millions of yen			Thousands of U.S. dollars (Note 1)		
December 31, 2022	Carrying amount	Fair value	Unrealized gain/loss	Carrying amount	Fair value	Unrealized gain/loss
Marketable and investment securities	¥803	¥803		$6,038	$6,038	
Total	¥803	¥803		$6,038	$6,038	
Derivatives	¥229	¥229		$1,722	$1,722	

	Millions of yen		
December 31, 2021	Carrying amount	Fair value	Unrealized gain/loss
Marketable and investment securities	¥593	¥593	
Total	¥593	¥593	
Derivatives	¥ (55)	¥ (55)	

Notes: 1. The note for the cash is omitted. The notes for the short-term investments, trade receivables, and trade payables are omitted because these items are mainly to be settled in a short period of time and fair value is almost equal to book value.

2. Unlisted equity securities, etc., are not included in "Marketable and investment securities." The carrying amount (fair value cannot be reliably determined) of these financial instruments that do not have a quoted market price in an active market is as follows.

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Unlisted equity securities	¥ 36	¥ 69	$ 271
Investments in unconsolidated subsidiaries and associated companies	293	229	2,203
Investments in limited partnerships	34	55	255
Total	¥363	¥353	$2,729

3. Derivative receivables and liabilities are on a net basis and items for which the total is a net liability are shown in ( ).

(4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of yen			
December 31, 2022	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥29,565			
Marketable and investment securities	34	¥ 600		
Short-term investments	505			
Trade receivables	21,287	1,463		
Total	¥51,391	¥2,063		

	Millions of yen			
December 31, 2021	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥27,199			
Marketable and investment securities		¥ 455		
Short-term investments	377			
Trade receivables	17,554	999		
Total	¥45,130	¥1,454		

	Thousands of U.S. dollars (Note 1)			
December 31, 2022	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	$222,293			
Marketable and investment securities	255	$ 4,511		
Short-term investments	3,797			
Trade receivables	160,053	11,000		
Total	$386,398	$15,511		

(5) Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements.

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is classified at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(a) The financial assets and liabilities measured at the fair values in the consolidated balance sheet

	Millions of yen			
December 31, 2022	Level 1	Level 2	Level 3	Total
Marketable and investment securities				
Available-for-sale securities:				
Equity securities	¥178			¥178
Bonds		¥563		563
Derivative transactions:				
Foreign currency forward contracts		220		220
Total assets	¥178	¥783		¥961
Derivative transactions:				
Foreign currency forward contracts		¥ 9		¥ 9
Total liabilities		¥ 9		¥ 9

	Thousands of U.S. dollars (Note 1)			
December 31, 2022	Level 1	Level 2	Level 3	Total
Marketable and investment securities				
Available-for-sale securities:				
Equity securities	$1,339			$1,339
Bonds		$4,233		4,233
Derivative transactions:				
Foreign currency forward contracts		1,654		1,654
Total assets	$1,339	$5,887		$7,226
Derivative transactions:				
Foreign currency forward contracts		$ 68		$ 68
Total liabilities		$ 68		$ 68

(b) The financial assets and liabilities not measured at the fair values in the consolidated balance sheet

Not applicable

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Marketable and investment securities

The fair values of listed equity securities are evaluated using quoted market price and classified as Level 1 because listed equity securities are traded in active markets. The fair values of bonds are evaluated using the price provided by financial institutions and classified as Level 2.

Derivatives

The fair values of foreign currency forward contracts are evaluated using the price provided by financial institutions and classified as Level 2.

18. Derivatives

Derivative transactions to which hedge accounting is not applied

At December 31, 2022	Contracted amount (Millions of yen)	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Selling	¥5,287		¥220	¥220
Buying	338		9	9
Total	¥5,625		¥229	¥229

At December 31, 2021	Contracted amount (Millions of yen)	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Selling	¥4,677		¥(51)	¥(51)
Buying	178		(4)	(4)
Total	¥4,855		¥(55)	¥(55)

At December 31, 2022	Contracted amount (Thousands of U.S. dollars (Note 1))	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Selling	$39,752		$1,654	$1,654
Buying	2,541		68	68
Total	$42,293		$1,722	$1,722

19. Other Comprehensive Income

The components of other comprehensive income for the years ended December 31, 2022 and 2021, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Unrealized gain (loss) on available-for-sale securities:			
Gains arising during the year	¥ 21	¥ 64	$ 158
Reclassification adjustments to profit or loss		(8)	
Amount before income tax effect	21	56	158
Income tax effect	3	1	22
Total	¥ 24	¥ 57	$ 180
Foreign currency translation adjustments:			
Adjustments arising during the year	¥3,893	¥2,842	$29,271
Reclassification adjustments to profit or loss		(179)	
Total	¥3,893	¥2,663	$29,271
Defined retirement benefit plans:			
Adjustments arising during the year	¥1,182	¥ 439	$ 8,887
Reclassification adjustments to profit or loss	250	7	1,880
Amount before income tax effect	1,432	446	10,767
Income tax effect	(428)	(133)	(3,218)
Total	¥1,004	¥ 313	$ 7,549
Share of other comprehensive income in an associate:			
Gains arising during the year	¥ 65	¥ 12	$ 489
Total	¥ 65	¥ 12	$ 489
Total other comprehensive income	¥4,986	¥3,045	$37,489

20. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2022 and 2021, were as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income attributable to owners of the parent	Weighted-average shares	EPS	
Year ended December 31, 2022				
Basic EPS				
Net income attributable to common shareholders	**¥10,299**	**37,983**	**¥271.14**	**$2.04**
Effect of dilutive securities				
Convertible bonds				
Stock acquisition rights		**159**		
Diluted EPS				
Net income for computation	**¥10,299**	**38,142**	**¥270.01**	**$2.03**
Year ended December 31, 2021				
Basic EPS				
Net income attributable to common shareholders	¥ 5,740	38,056	¥150.83	
Effect of dilutive securities				
Convertible bonds	(7)	1,975		
Stock acquisition rights		237		
Diluted EPS				
Net income for computation	¥ 5,733	40,268	¥142.38	

21. Revenue Recognition

(a) Disaggregated information of revenues from contract with customers

	Millions of yen		
December 31, 2022	Special Products	Machine Tools	Total
Japan	**¥ 2,109**	**¥ 6,809**	**¥ 8,918**
USA	**10,920**	**17,907**	**28,827**
Asia	**1,127**	**23,869**	**24,996**
Europe	**3,803**	**20,824**	**24,627**
Revenues from contracts with customers	**¥17,959**	**¥69,409**	**¥87,368**

	Thousands of U.S. dollars (Note 1)		
December 31, 2022	Special Products	Machine Tools	Total
Japan	**$ 15,857**	**$ 51,196**	**$ 67,053**
USA	**82,105**	**134,639**	**216,744**
Asia	**8,474**	**179,466**	**187,940**
Europe	**28,594**	**156,571**	**185,165**
Revenues from contracts with customers	**$135,030**	**$521,872**	**$656,902**

Note: Revenues from contracts with customers are based on the location of each Group Company and are classified by each country or region.

(b) Basic information for understanding revenue from contracts with customers

The basis for understanding revenue is described in Note 3 (n), "Standards of significant revenues and expenses."

(c) Information based on the relationship between the satisfaction of performance obligations under contracts with customers and cash flow arising from the contracts, as well as the amount and timing of revenue expected to be recognized after the next fiscal year from the contracts with customers that existed at the end of the current fiscal year.

(1) Balance of contract liabilities, etc.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2022	2022
Receivables from contracts with customers (beginning balance)	¥18,553	$139,496
Receivables from contracts with customers (ending balance)	22,750	171,053
Contract liabilities (beginning balance)	801	6,023
Contract liabilities (ending balance)	966	7,263

Contract liabilities are mainly related to Advance received.

The amount of revenue recognized in the fiscal year under review included in the balance of contract liabilities at the beginning of the current fiscal year was ¥801 million ($6,023 thousand).

(2) Transaction prices allocated to remaining performance obligation

As the Group had no significant transaction with an initial expected contract period over one year, the practical expedients are applied and information on remaining performance obligations is omitted. In the consideration from contracts with customers, there is no significant amount without the transaction price.

22. Segment Information

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group has two reportable segments: "Special Products" and "Machine Tools."

"Special Products" produces and sells POS printers and others.

"Machine Tools" produces and sells CNC automatic lathes and others.

2. Methods of measurement for the amounts of sales, profit (loss), assets, liabilities and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

3. Information about sales, profit (loss), assets, liabilities and other items.

	Millions of yen				
	Reportable Segment				
December 31, 2022	Special Products	Machine Tools	Total	Reconciliations	Consolidated
Sales to external customers	**¥17,959**	**¥69,409**	**¥87,368**		**¥87,368**
Intersegment sales or transfers					
Total	**17,959**	**69,409**	**87,368**		**87,368**
Segment profit	**¥ 3,754**	**¥12,249**	**¥16,003**	**¥ (2,078)**	**¥13,925**
Segment assets	**¥15,940**	**¥69,479**	**¥85,419**	**¥14,120**	**¥99,539**
Other items:					
Depreciation	**442**	**1,791**	**2,233**	**181**	**2,414**
Investments in associates	**293**		**293**		**293**
Increase in property, plant and equipment and intangible assets	**606**	**2,598**	**3,204**	**186**	**3,390**

	Millions of yen				
	Reportable Segment				
December 31, 2021	Special Products	Machine Tools	Total	Reconciliations	Consolidated
Sales to external customers	¥15,570	¥48,790	¥64,360		¥64,360
Intersegment sales or transfers					
Total	15,570	48,790	64,360		64,360
Segment profit	¥ 2,283	¥ 6,858	¥ 9,141	¥ (1,726)	¥ 7,415
Segment assets	¥12,537	¥55,791	¥68,328	¥14,033	¥82,361
Other items:					
Depreciation	338	1,550	1,888	239	2,127
Investments in associates	229		229		229
Increase in property, plant and equipment and intangible assets	182	1,667	1,849	77	1,926

	Thousands of U.S. dollars (Note 1)				
	Reportable Segment				
December 31, 2022	Special Products	Machine Tools	Total	Reconciliations	Consolidated
Sales to external customers	**$135,030**	**$521,872**	**$656,902**		**$656,902**
Intersegment sales or transfers					
Total	**135,030**	**521,872**	**656,902**		**656,902**
Segment profit	**$ 28,225**	**$ 92,098**	**$120,323**	**$ (15,624)**	**$104,699**
Segment assets	**$119,850**	**$522,399**	**$642,249**	**$106,165**	**$748,414**
Other items:					
Depreciation	**3,323**	**13,466**	**16,789**	**1,361**	**18,150**
Investments in associates	**2,203**		**2,203**		**2,203**
Increase in property, plant and equipment and intangible assets	**4,556**	**19,534**	**24,090**	**1,399**	**25,489**

Notes:
1. Reconciliations recorded for segment profit include corporate expenses that are not allocated to any reportable segment. Corporate expenses principally consist of general corporate expenses incurred by the Administration Headquarters of the Company.
2. Reconciliations recorded for segment assets include corporate assets that are not allocated to any reportable segment. Corporate assets principally consist of assets maintained by the Administration Headquarters of the Company and consist principally of excess funds under management (cash and cash equivalents).
3. Reconciliations recorded for depreciation include depreciation incurred by corporate assets that are not allocated to any reportable segment.
4. Reconciliations recorded for increase in property, plant and equipment and intangible assets are capital investments principally for corporate assets that are not allocated to any reportable segment.
5. Segment profit agrees with operating profit in the accompanying consolidated statement of income.
6. As described in Note 4, “Accounting Change,” the Company has applied the Accounting Standard for Revenue Recognition, etc. from the beginning of the fiscal year under review and changed the accounting method with which it recognized revenue. As a result, the method for calculating segment profit and loss was changed in the same manner.
   As a result of this change, segment profit in Special Products Segment decreased ¥47 million ($353 thousand) while net sales and segment profit in the Machine Tools Segment decreased ¥85 million ($639 thousand) and ¥210 million ($1,579 thousand) in the fiscal year under review, compared with results calculated using the previous method.

Related Information

Related information by geographical area at December 31, 2022 and 2021, consisted of the following:

(1) Net Sales

	Millions of yen					
December 31, 2022	Japan	USA	China	Germany	Others	Total
	¥9,037	¥27,904	¥17,112	¥8,743	¥24,572	¥87,368

	Millions of yen					
December 31, 2021	Japan	USA	China	Germany	Others	Total
	¥8,072	¥17,315	¥14,543	¥6,076	¥18,354	¥64,360

	Thousands of U.S. dollars (Note 1)					
December 31, 2022	Japan	USA	China	Germany	Others	Total
	$67,947	$209,804	$128,662	$65,737	$184,752	$656,902

Note: Sales are classified by country or region based on the location of customers.

(2) Property, Plant and Equipment

	Millions of yen				
December 31, 2022	Japan	China	Thailand	Others	Total
	¥8,001	¥3,304	¥2,633	¥1,759	¥15,697

	Millions of yen				
December 31, 2021	Japan	China	Thailand	Others	Total
	¥8,459	¥2,607	¥1,913	¥1,330	¥14,309

	Thousands of U.S. dollars (Note 1)				
December 31, 2022	Japan	China	Thailand	Others	Total
	$60,158	$24,842	$19,797	$13,226	$118,023

23. Related Party Disclosures

Transactions of the Company with related parties for the years ended December 31, 2022 and 2021, were as follows:

Year ended December 31, 2022

Related party	Category	Description of transaction	Millions of yen	Thousands of U.S. dollars (Note 1)
Hajime Sato	Chairman of the Board	Exercise of stock options	¥12	$90
Fumio Masuda	Executive Officer	Exercise of stock options	¥11	$83

Year ended December 31, 2021

Not applicable

24. Subsequent Event

The following appropriation of retained earnings at December 31, 2022, was approved at the Company's Board of Directors' meeting held on February 22, 2023:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥40 ($0.301) per share	¥1,507	$11,331

Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Star Micronics Co., Ltd.:

Opinion

We have audited the consolidated financial statements of Star Micronics Co., Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of December 31, 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Appropriateness of the timing of revenue recognition for sales from the machine tools business	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As stated in Note 22 "Segment Information" to the consolidated financial statements, sales from the machine tools business were 69,409 million yen, which accounted for 79.4% of consolidated net sales of 87,368 million yen recorded in the consolidated statement of income for the current year. Furthermore, sales from the machine tools business were primarily from the sales of products of Star Micronics Co., Ltd. (the "Company"), Star CNC Machine Tool Corp. and Shanghai Xingang Machinery Co., Ltd, which are significant subsidiaries. As stated in Note n. "Revenue Recognition" of Note 2 "Summary of Significant Accounting Policies" to the consolidated financial statements, the Group deems the performance obligation to be satisfied when a customer has obtained control of the product based on contractual conditions and recognizes revenues at the time products are shipped, products are inspected by a customer, or at a time specified in trade terms. Revenue related to machine tools is recognized on an inspection basis and a certain number of installation hours are needed for a test run and a specification confirmation by a customer before a customer has ability to use of a machine tools. When the installation of machine tools does not proceed as initially planned, the sales may not be recorded in the originally planned period. Additionally, the amounts of sales and profits per unit for machine tools are large, and recording such sales in an inappropriate period may significantly impact the sales and profit for the year. Therefore, auditing the appropriateness of the timing of revenue recognition for sales from the machine tools business requires a more careful consideration. Based on above, we identified the appropriateness of the timing of revenue recognition for sales from the machine tools business of the Company and its two significant subsidiaries as a key audit matter.	Our audit procedures related to the appropriateness of the timing of revenue recognition for sales from the machine tools business included the following, among others: (1) Evaluation of internal controls We evaluated the design and operating effectiveness of the following internal controls related to appropriate timing of recording sales that are recognized based on contractual conditions with customers, approval of sales inputted in the sales management system, which includes reviewing the appropriateness of sales dates by checking with evidence such as proofs of shipment, bills of lading, and acceptance inspection documents. (2) Substantive procedures We analyzed the monthly and yearly changes in sales by customer and by product for the machine tools business and performed the following procedures: - Examined whether the timing in which revenue is recognized for transactions is appropriate in terms of the contractual conditions established in contracts with customers or purchase orders. - Tested significant sales recorded close to year-end by inspecting purchase orders, contracts, and evidence which supported the appropriate timing of revenue recognition, such as proofs of shipment, bills of lading, and acceptance inspection documents. - Examined the acceptance inspection documents for sales recorded on an inspection basis to determine whether there was a signature for the acceptance inspection from the person in charge of the customer, and whether the acceptance dates were consistent with the installation/test run dates. - Examined whether there were large costs incurred after acceptance inspections, which were normally not expected to occur.

	- We inspected the sales ledger after year-end and examined whether there were any significant negative sales entries that would cast doubt on the appropriateness of the timing of revenue recognition.

Other Information

Management is responsible for the other information. The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the ANNUAL REPORT 2022, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit and Supervisory Committee 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu

April 26, 2023

Stock Information

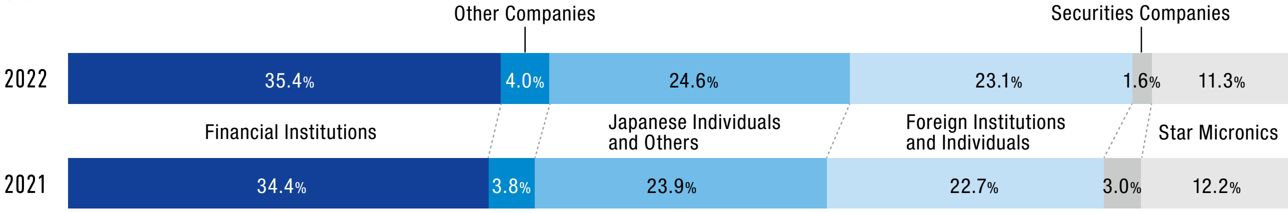
as of December 31, 2022

Common Stock	Authorized	158,000,000 shares	**Stock Listing**	Prime Market Section of the Tokyo Stock Exchange
	Issued	42,465,134* shares		
Paid-in Capital		12,721,939,515 yen	**Transfer Agent**	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda, Tokyo 100-8212, Japan
Number of Shareholders		11,776		

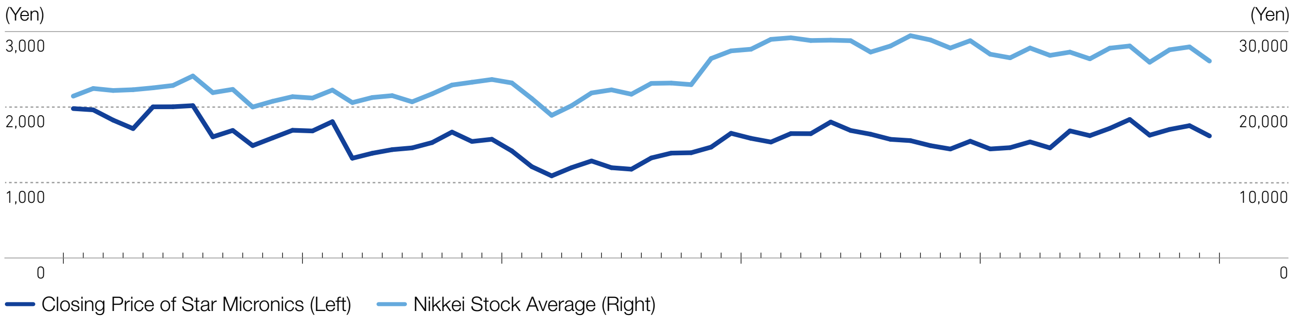
* The decrease in the number of shares issued was due to a retirement of 1,626,200 shares.

COMPOSITION OF SHAREHOLDERS

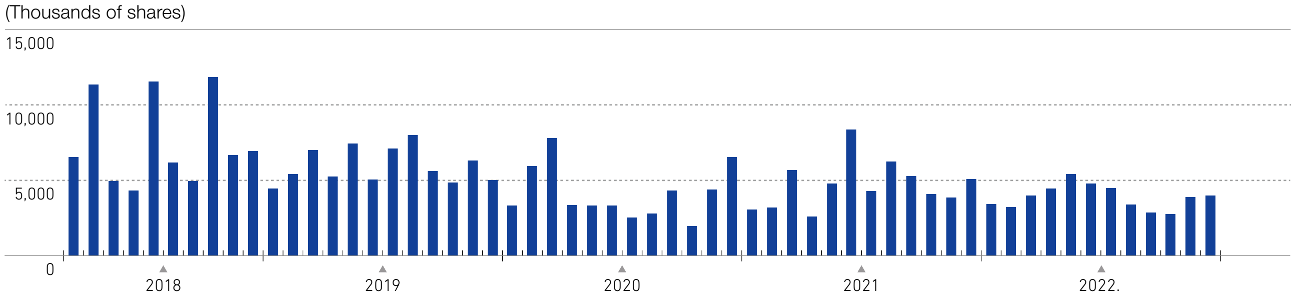
(%)



STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)



TRADING VOLUME



Notes: 1. This trading volume shows the monthly volume of trade on the Tokyo Stock Exchange.
2. Stock prices of Star Micronics and the Nikkei Stock Average are based on a simple average of daily closing prices for each day of every month at the Tokyo Stock Exchange.

STOCK PRICE

(Yen)

Year	2018	2019	2020	2021	**2022**
At year-end	1,491	1,575	1,654	1,549	**1,619**
High	2,270	1,893	1,720	1,893	**1,858**
Low	1,332	1,258	945	1,416	**1,318**

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