Sustained Efforts, Come What May

ANNUAL REPORT 12/2018 (PDF Version)

For the year ended December 31, 2018

STAR MICRONICS CO., LTD.

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, 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, Star Micronics is engaged in three businesses: special products, mainly point-of-sale (POS) printers; machine tools, mainly CNC automatic lathes; and precision products, including wristwatch, automobile, and other related components.

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 86% and a ratio of overseas production to all production of 81%. Leveraging its core technologies, the Company will promote a wide range of measures aimed at both creating new businesses while expanding existing businesses. Through these means, every effort will be made to build a flexible and robust business portfolio going forward.

CONTENTS

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.

Medium-Term Management Plan

Medium-Term Vision

As a global niche company, our goal is to enhance the prosperity and well-being of all stakeholders by distributing the added-value created through efforts aimed at combining the strengths of advanced software and precision processing technologies that help maximize customer satisfaction.

Basic Policies

1. Reform Existing Businesses

- Pursue precision processing technologies that are vital to an IoT society
- Transition to a business entity that incorporates software technology
- Work toward a production system that maximizes added-value

2. Create and Nurture New Businesses

- Create a fourth major business pillar (through various initiatives including M&A and business alliances)
- Cultivate new businesses and products (Vibration Power Generators, Cloud Service Business, etc.)

3. Evolve into a Genuine Global Company

- Educate, train and assign global human resources
- Further strengthening of sales channels

Progress under the Medium-Term Management Plan

Achievements and Challenges

Strategies (Principal Initiatives)	Achievements and Challenges
Special Products ■ Develop high-value-added products ■ Reorganize sales bases in Europe in light of the U.K.'s impending withdrawal from the European Union ■ Reduce costs by increasing supply chain efficiency	■ Launched mCollection®, a new brand of peripherals for the mPOS market ■ Established a new European sales base in Germany ■ Reorganizing business divisions and building a new structure and systems with an eye toward strengthening supply chain management
Machine Tools ■ Release a series of fixed headstock automatic lathes ■ Develop IoT-related software ■ Shorten lead times and reduce inventories through modular design and production ■ Strengthen service systems in China	■ Unveiled SK-51, a fixed headstock automatic lathe ■ Commenced sales of SMOOSS-i, an operation monitoring system ■ Upgraded and expanded the lineup of modular design and production products ■ Completed construction of a new facility at the Company's Dalian Plant in China ■ Resolved to construct a solutions center

Achievements and Challenges

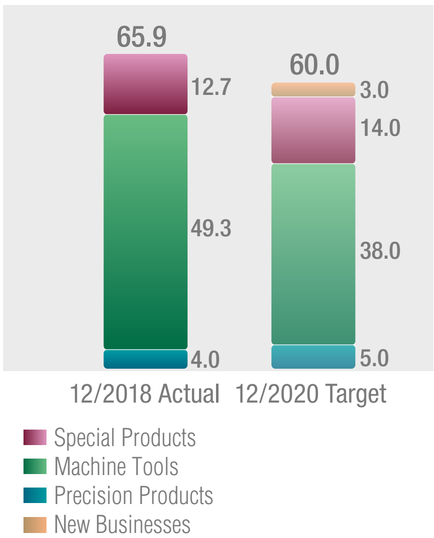
Strategies (Principal Initiatives)	Achievements and Challenges
Precision Products ■ Cultivate new customers and markets ■ Streamline production and promote automation ■ Increase operating rates utilizing IoT	■ Improved profitability through various measures including steps to reorganize production bases ■ Newly adopted automated testing equipment
New Businesses ■ M&A and business alliances, etc. ■ Vibration Power Generators ■ Cloud Services	■ Promote business alliances ■ Withdrew from the vibration power generator business ■ Reviewed the cloud service business structure and systems

Performance Targets

Star Micronics has changed its account settlement date from the end of February to December 31 for the fiscal period under review (the fiscal period ended December 31, 2018). As a transitional period, the consolidated fiscal period for the fiscal period under review 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.

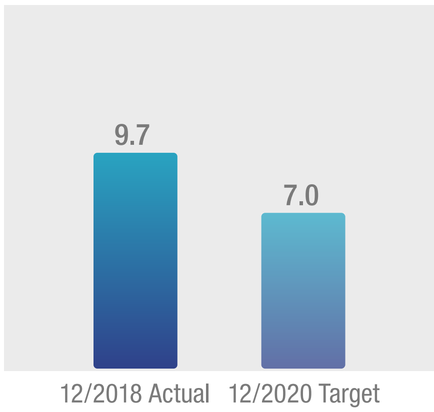
NET SALES

(Billions of yen)



OPERATING INCOME

(Billions of yen)



		12/2018 Actual	12/2020 Plan
Exchange Rate	US$	¥110.44	¥110.00
	EUR	¥130.42	¥115.00

Financial Target

	12/2018 Actual	12/2020 Target
Net Sales	¥65.9 billion	¥60.0 billion
Operating Income	¥9.7 billion	¥7.0 billion
Operating Income Ratio	14.7%	11.7%
Return on Equity (ROE)	14.3%	12.0% or more

Returns to Shareholders

	12/2018 Actual	12/2020 Target
Total Payout Ratio	55.2%	50.0% or more
DOE	4.1%	4.5% or more
Dividends per Share	¥54	¥60

Financial Highlights

Financial Highlights | Related Information by Geographical Region

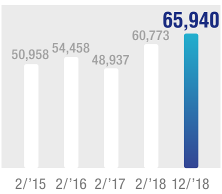
Star Micronics Co., Ltd. and Consolidated Subsidiaries

For the years ended February 2017, 2018 and December 2018

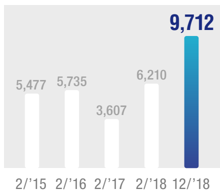
	Millions of yen			Thousands of U.S. dollars
	2/2017	**2/2018**	**12/2018**	**12/2018**
For the year :				
Net sales	¥48,937	¥60,773	¥65,940	$594,054
Operating income	3,607	6,210	9,712	87,495
Net income attributable to owners of the parent	3,181	5,781	6,795	61,216
Return on sales	6.5%	9.5%	10.3%	
Capital expenditures	1,441	3,505	4,628	41,694
Depreciation and amortization	2,167	2,198	1,954	17,603
At year-end :				
Total assets	68,351	77,363	79,938	720,162
Total equity	43,755	47,447	49,312	444,252
Equity ratio	62.8%	60.1%	60.3%	
	Yen			**U.S. dollars**
Per share :				
Basic net income	¥81.77	¥155.68	¥186.04	$1.68
Diluted net income	74.69	136.90	163.42	1.47
Cash dividends applicable to the year	48.00	52.00	54.00	0.49
Stock information :				
Common shares issued	47,033,234	46,774,634	45,772,234	
Number of shareholders	8,730	8,906	10,441	

Notes : 1. The rate of ¥111 to US$1, prevailing on December 31, 2018, has been used for translation into U.S. dollar amounts.
2. 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. Due to this method of presentation, year-on-year percentage change data is not provided.

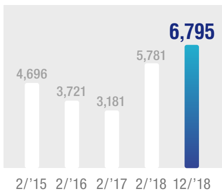
NET SALES
(Millions of yen)



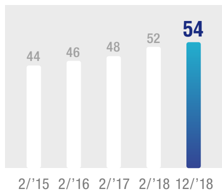
OPERATING INCOME
(Millions of yen)



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

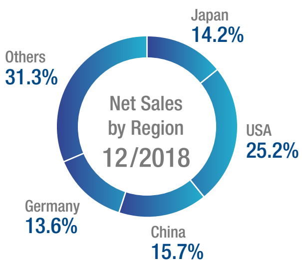
For the years ended February 2017, 2018 and December 2018

Net Sales by Geographical Region

	Millions of yen			Thousands of U.S. dollars
	2/2017	2/2018	12/2018	12/2018
Japan	¥8,221	¥10,205	¥9,372	$84,432
USA	13,084	14,636	16,631	149,829
China	6,317	8,841	10,359	93,324
Germany	5,836	7,323	8,941	80,550
Others	15,479	19,768	20,637	185,919
Total	48,937	60,773	65,940	594,054

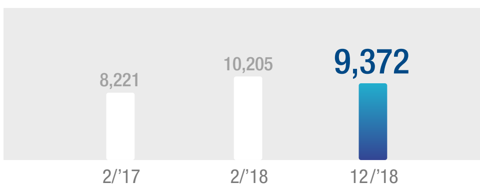
Notes : 1. The rate of ¥111 to US$1, prevailing on December 31, 2018, has been used for translation into U.S. dollar amounts.

2. 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. Due to this method of presentation, year-on-year percentage change data is not provided.



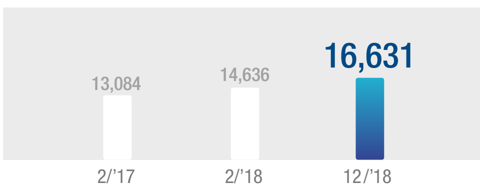
Japan

(Millions of yen)



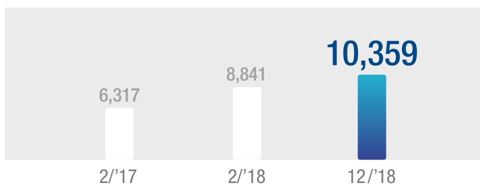
USA

(Millions of yen)



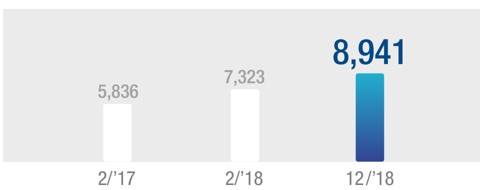
China

(Millions of yen)



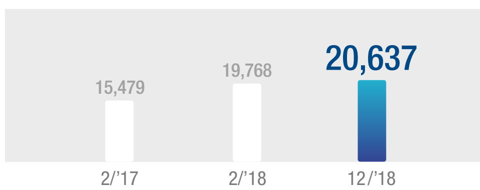
Germany

(Millions of yen)



Others

(Millions of yen)



To Our Shareholders

Effective from the fiscal period under review (the 10-month period ended December 31, 2018), Star Micronics changed its account settlement date from the end of February to December 31. Despite this change, the Star Micronics Group reported net sales of ¥65,940 million. This was largely due to record high sales of machine tools. From a profit perspective, operating income came to ¥9,712 million. Net income attributable to owners of the parent amounted to ¥6,795 million after posting business restructuring expenses related to the Precision Products Segment.

There were concerns of a lull in demand at the beginning of the period compared with the previous fiscal year in which sales and profits grew substantially as a result of robust trends in the Machine Tools Segment. Despite these concerns, demand remained brisk with the Group reporting strong results including record high monthly orders of machine tools in March 2018. As far as production was concerned, although supply was tight in connection with the procurement of parts, the Group took positive steps to improve productivity and was successful in maintaining strong sales. Turning to its other businesses, demand for POS-related products was firm mainly in the European and U.S. markets in the Special Products Segment. While a portion of demand for non-wristwatch components including components for hard disk drives (HDDs) was sluggish, trends in demand for wristwatch components was robust in the Precision Products Segment.

Looking outside the Group's mainstay business activities, Star Micronics opened a Tokyo Office in July 2018. In addition to housing the operations of Star Marketing Japan Co., Ltd., a subsidiary charged with the responsibility of expanding special product sales in Japan, this Tokyo Office is expected to serve as a new research and development base for the Group in Tokyo. As well as concentrating on software R&D, plans are in place to utilize the Tokyo Office as an access point to cutting-edge technologies, information, and knowledge together with personal and other connections.

Moving forward, the Star Micronics Group will work in unison to further enhance its corporate value.

As we endeavor to achieve our established goals, we kindly request your continued support and understanding.

March 2019

Mamoru Sato
Representative Director,
President and CEO

Interview with the President

Upfront about Everything

Mamoru Sato

Representative Director, President and CEO

The Star Micronics Group enjoyed strong financial results in the fiscal period ended December 31, 2018 while also reporting record high sales in the Machine Tools Segment. On the other hand, uncertainty surrounding the future is expected to continue despite a market environment that has remained vibrant. Here we provide our thoughts on market conditions and the direction of the Group's business going forward.

Theme 01 | Theme 02 | Theme 03 | Theme 04 | Theme 05

Theme 01

The Chinese economy is experiencing a slowdown as a result of such factors as growing trade friction with the U.S. What impact is this having on the Group's operating results?

Trade friction between China and the U.S. is indeed having an adverse effect on the Chinese economy. In general, the machine tools market as a whole is also witnessing a downturn in demand.

Having said this, however, the Group's Machine Tools Segment is exhibiting substantial growth in China. In fact, we are not seeing any discernable impact on trends in our mainstay Swiss-type automatic lathes with users being asked to remain in a holding pattern due to the current level of robust demand. The downturn in machine tools market demand in China is mainly in the smartphone and other electronics field. The Group's users, on the other hand, come largely from the medical equipment-related sector, which cover such items as bone screws and implants. Moreover, a large portion of the Group's activities are geared toward numerous domestic industries. This includes 5G communications-related components, which China continues to promote vigorously. We believe these factors will provide a source of considerable ongoing strength.

Regardless of the economy, the shift toward machines as a substitute for human labor is picking up steam. This reflects the shortage of labor in China as a result of its declining birthrate and aging population. At the same time, the need to introduce new equipment over and above the renewal of existing facilities is also climbing on the back of an increased focus on machine tools (automatic lathes) that address manpower- and labor-saving concerns. Turning also to the automobile industry, and the growing need for increased performance and precision, there are signs of an upswing in new component machining demand, which includes Swiss-type automatic lathes that are distinguished, among other things, for their excellent processing of compact precision parts. Taking into account each of the aforementioned factors, the machine tools manufactured by the Star Micronics Group are exhibiting different trends from other machine tools fields.

From a business cycle perspective, however, we view the upcoming and inevitable downturn in machine tools demand with considerable trepidation. With this in mind, we recognize the need for vigilance with regard to forecasts of 2019 results.

Looking back, the scale of each lull in machine tools market demand has grown in intensity. In addition to addressing the increase in short-term orders as a matter of course, we remain acutely aware of the critical need to consistently bolster our production structure and systems as the market enters each period of impending growth.

In the fiscal period under review, the Star Micronics Group worked diligently to expand its production capacity at each production site with an eye toward building a structure that is capable of manufacturing 350 units each month. Despite a bottleneck with respect to the procurement of principal parts, we have successfully minimized any adverse effects by promoting various countermeasures including the replacement of certain suppliers. We anticipate that production capacity in 2019 will exceed the fiscal period under review, with signs of an end to the current shortage of parts.

Theme 02 While sales of mPOS printers are strong in Europe, results remain flat in the U.S. and Japan. What can you tell us about the direction of business amid the gradual increase in new settlement methods?

mPOS printer competition is becoming increasingly fierce with each passing year. Despite this competitive environment, the global mPOS market continues to expand. Moving forward, we are confident in our ability to take full advantage of this expanding market by introducing attractive high-value-added products. Sales of mPOS market products related to the mCollection® brand released in 2018 are expanding steadily and contributing to an increase in market share. Moreover, we are anticipating a further pickup in demand on the back of investments aimed at addressing reductions in the tax rate as well as government subsidies in the leadup to the scheduled consumption tax rate hike in 2019.

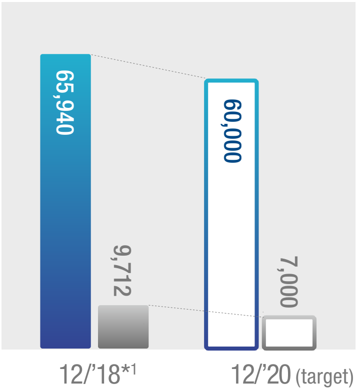
Technological advances in cashless and other settlement methods are also emerging as a major trend in recent years. This includes the growing incidence of fully automated stores and register-free settlement methods. However, these phenomena are concentrated on such specific outlets as major retail stores. Meanwhile, the target markets for mPOS-related products are completely different. Looking ahead, we anticipate that small and medium-sized as well as other retail stores that previously did not utilize mPOS-compatible registers or accept the use of credit cards will increasingly emerge as a lucrative market.

From a global perspective, mPOS demand is projected to climb in earnest. Against this backdrop, efforts will naturally be directed toward improving printer functions and performance as the mPOS market continues to expand. Looking well into the future, we recognize the need to grow our business even further and will actively focus on the development of peripheral products and services.

Theme 03 What progress have you made under the Medium-Term Management Plan?

In the fiscal period under review, the second year of the Medium-Term Management Plan, which will carry the Group through to the fiscal year ending December 31, 2020, both revenue and earnings exceeded established targets. In specific terms, net sales came to ¥60 billion and operating income totaled ¥7 billion largely as a result of robust trends in the Machine Tools Segment. By business, the Group successfully commercialized fixed headstock automatic lathes and released a system that monitors machine operations in the Machine Tools Segment. The Group also unveiled two new fixed headstock product models during the fiscal period under review with plans to further expand the lineup going forward. In addition, the decision was made to construct a new solution center on the premises of the Kikugawa Factory in Japan. By setting up certain facilities including an exhibition showroom, energies will be directed toward enhancing the Group's before-sale services to customers. At the same time, we will establish an evaluation test room where we can conduct product tests with Asia's high-temperature and high-humidity environments very much in mind. Our goal is to comprehensively bolster our business capabilities from product development to sales. Turning to the Group's manufacturing activities, we are shortening lead times and reducing inventories by expanding models that are compatible with modular design and production.

MEDIUM-TERM TARGETS
(Millions of yen)



In the Special Products Segment, we took steps to develop high-value-added products targeting the mPOS market. This included the launch of mCollection®, a new brand of mPOS-related peripherals. In addition to expanding sales in the future, we will introduce new systems and adopt various measures in a bid to strengthen supply chain management.

As far as the Precision Products Segment is concerned, the consignment of non-wristwatch component production is exhibiting a substantial decline. This largely reflects an upswing in competition from various countries throughout Asia where products can be manufactured at a lower cost. As a part of its ongoing restructuring endeavors, the decision was also made to terminate production of precision products at the Group's Dalian Plant in China as of the end of 2019. Moving forward, we will continue to promote a host of measures including the reorganization of production bases in an effort to improve profitability. We will also work to increase productivity by streamlining production and promoting automation utilizing IoT.

In order to create new businesses, the Star Micronics Group will leverage the research and development base located in the Tokyo Office newly established in the fiscal period under review. In addition, we will actively consider M&A as well as business alliance opportunities as a wellspring for the birth of new businesses.

*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.

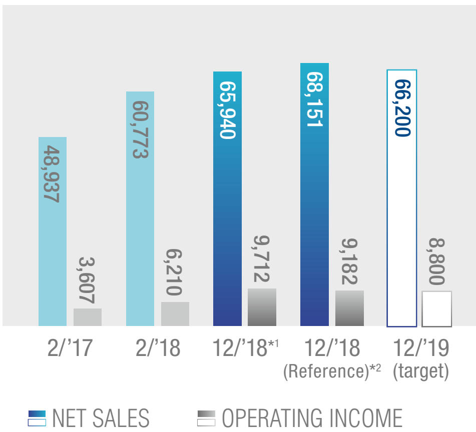
Theme 04 What is your outlook regarding business result forecasts for the fiscal year ending December 31, 2019?

While the global economy as a whole is projected to experience a period of ongoing modest recovery, conditions are expected to remain uncertain in the future. This uncertainty is due to the difficulty in predicting operating conditions as a result of various issues including trade friction between the U.S. and China as well as problems associated with the U.K.'s withdrawal from the European Union and the impact of these issues going forward.

Under these circumstances, and in the context of the Company's consolidated business performance for the coming fiscal year, the mainstay Machine Tools Segment is projected to confront a mixed operating environment. While there are concerns regarding the impact of a slowdown in economic conditions, demand is expected on the back of ongoing automation needs both in Japan and overseas. Turning to the Special Products Segment, trends are anticipated to remain firm, spearheaded by a pickup in demand in Japan in the lead up to the consumption tax rate hike. In the Precision Products Segment, where the Group is undertaking various measures including the reorganization of production bases, trends in both wristwatch and non-wristwatch components are projected to be sluggish.

In this business environment, we expect net sales of ¥66,200 million, operating income of ¥8,800 million and net income attributable to owners of the parent of ¥6,300 million in the next fiscal year.

NET SALES AND OPERATING INCOME
(Millions of yen)



*2. Figures presented as a reference for the fiscal period ended December 31, 2018 have been calculated to facilitate a comparison with forecasts for the fiscal year ending December 31, 2019 under the same conditions (a 12-month period for both domestic and overseas Group companies).

Theme 05 Can you comment on the Company's approach toward corporate governance and returns to shareholders?

Individuals appointed from outside the Company make up a majority of its Board of Directors. In specific terms, three of the seven-member Board of Directors are appointed in-house while four are outside directors. In order to ensure that Star Micronics continues to evolve as a true global company, we will consider the injection of diverse human resources on an ongoing basis.

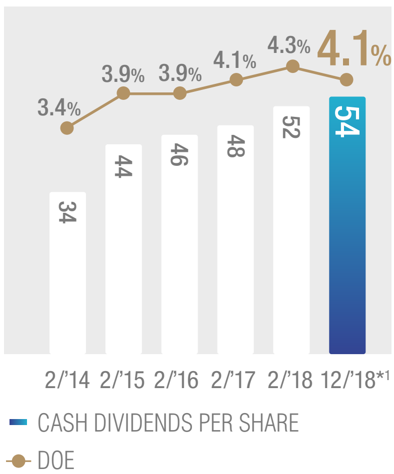
In addition, and from a shareholders' return perspective, Star Micronics' basic policy is to target a total consolidated payout ratio of 50% or more, including the repurchase of own shares, while taking into consideration its consolidated dividend on equity (DOE). In the fiscal period under review, the Company repurchased its own shares at an acquisition cost of approximately ¥1.8 billion. All of the shares that were repurchased were retired. Star Micronics set its annual dividend at ¥54 per share, up ¥2 per share compared with the previous fiscal year. On this basis, the Company has continued to increase its cash dividend for an eighth consecutive fiscal year, and as a result, secured a total payout ratio of 55.2% with DOE coming in at 4.1%.

Turning to the payment of dividends for the next fiscal year, Star Micronics is looking to pay an interim and period-end dividend of ¥28 per share for the fiscal year ending December 31, 2019. This will bring the annual dividend to ¥56 per share, a ¥2 per share increase compared with the fiscal period under review.

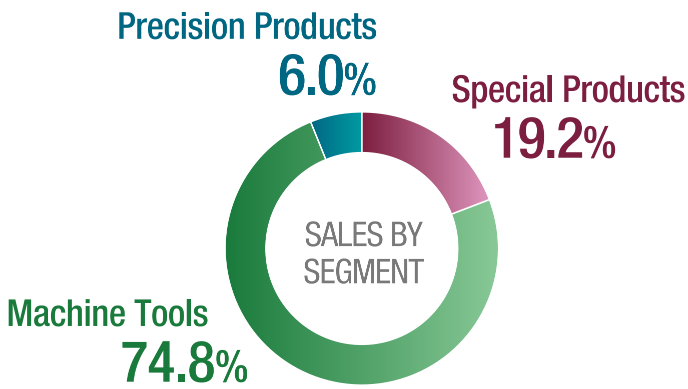
Moving forward, the Company will continue to target DOE of 4.5% or more and ROE of 12.0% or more, both of which are medium-term targets under its Medium-Term Management Plan. While maintaining its focus on actively reforming its business and management, Star Micronics will work in unison to enhance its corporate value.

CASH DIVIDENDS PER SHARE AND DOE

(Yen, %)



At a Glance by Segment



Special Products

NET SALES

¥12,652 million

Point-of-sale (POS) printers used at such places as department stores, supermarkets and restaurants are the main products in the Special Products Segment. The Company maintains a product lineup that harnesses the distinctive features of both thermal and dot matrix printers. In recent years, demand for mobile POS (mPOS) printers that are compatible with tablet terminals, smartphones, and other devices has experienced a steady increase.

▸ Special Products

Machine Tools

NET SALES

¥49,338 million

In the Machine Tools Segment, Star Micronics' Swiss-Type CNC Automatic Lathes enjoy a high market share. Ideally suited for precision component processing with high accuracy, the Company's products in this segment 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 a structure and systems that consistently address users' needs by leveraging the latest technologies including its proprietary Star Motion Control System for optimizing machining operations.

▸ Machine Tools

Precision Products

NET SALES

¥3,950 million

The Precision Products Segment is a foundation business of Star Micronics. Building on its strengths and the ability to address a full range of needs from machining to plating, the Company boasts a leading share in the wristwatch component processing field in Japan. Utilizing the technologies developed through our wristwatch component activities, we are also focusing on the field of non-wristwatch components for automotive, air-conditioner, medical and other use.

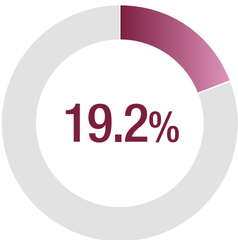
▸ Precision Products

Special Products

Turning to the Asian market, sales of POS printers in China were sluggish during the fiscal period under review. In contrast, trends were firm in the both the U.S. and Europe and solid on the domestic front. Looking at the fiscal year ending December 31, 2019, Japan is projected to spearhead growth. This is largely due to the forecast pickup in demand associated with the consumption tax rate hike.

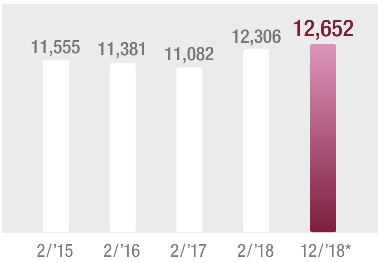
SPECIAL PRODUCTS

SALES BY SEGMENT



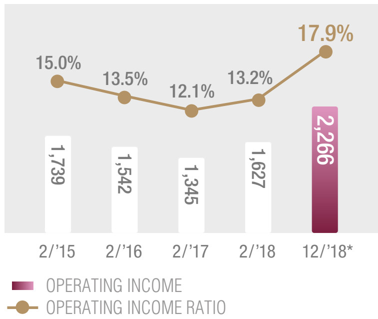
NET SALES

(Millions of yen)



OPERATING INCOME & OPERATING INCOME RATIO

(Millions of yen, %)

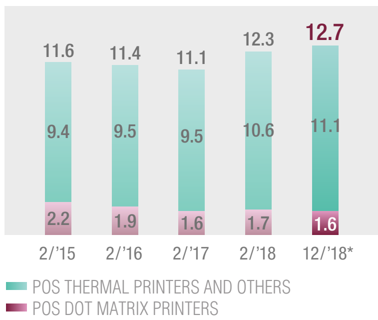


Business Environment and Results in the Fiscal Period Ended December 31, 2018

In the Special Products Segment, Star Micronics is engaged in the global sale of mainly POS printers. In addition to conventional products that communicate with POS terminals or PCs, demand for mPOS printers that utilize mobile devices including smartphones and tablet terminals has enjoyed a steady increase in recent years. In addition to a series of new thermal printers, Star Micronics is focusing on the sale of mPOS peripheral devices also under the mCollection® brand name.

SALES IN THE SPECIAL PRODUCTS SEGMENT

(Billions of yen)



In the fiscal period ended December 31, 2018, sales of POS printers were solid in the U.S. market. Sales were also strong in the European market on the back of robust sales trends mainly in leading industrial markets. While sales were sluggish in the Asian market including a drop in demand in China, the market in Japan remained solid overall despite weak large project demand. As far as mPOS printers are concerned, sales are increasing steadily worldwide. Expectations that the Japanese market in particular will expand going forward are especially high. Given these expectations, Star Micronics established Star Marketing Japan Co., Ltd., a sales subsidiary in July 2018, in an effort to strengthen its domestic sales organization.

Accounting for each of these factors, sales in the Special Products Segment came to ¥12,652 million (US$113,982 thousand) and operating income to ¥2,266 million (US$20,414 thousand)*.

Outlook for the Current Fiscal Year and Business Strategies

POS printer mC-Print3™

Spearheaded mainly by the market in Japan, demand is projected to remain firm in the fiscal year ending December 31, 2019. mPOS printers in particular are expected to experience ongoing growth while driving the Special Products Segment forward. Again, in the domestic market, mPOS-related demand is anticipated to climb on the back of a variety of factors. This includes the introduction of reduction tax rate measure subsidies in line with the increase in Japan's consumption tax rate in October 2019 and incentives aimed at encouraging the use of cashless payment terminals. Working largely through Star Marketing Japan Co., Ltd., a sales subsidiary established during the fiscal period under review, every effort will be made to strengthen the Group's sales organization. In addition, energies will be directed toward cultivating new markets and increasing the Group's market share by bolstering the sales structure and bases in Europe where sales are expanding.

In the fiscal year ending December 31, 2019, sales in the Special Products Segment are expected to reach ¥13,240 million. From a profit perspective, operating income is forecast to come in at ¥1,930 million.

* 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. Due to this method of presentation, year-on-year percentage change data is not provided.

Sales Volume of POS Printers by Region

(Thousands of units)

	2/2018	12/2018*
The Americas	267	292
Europe	170	186
Asia	61	48
Japan	71	55
Total	568	581

Establishment of Star Marketing Japan Co., Ltd., a Sales Subsidiary in Japan

Located in Shimbashi, Minato-ku, Tokyo, Star Micronics established Star Marketing Japan Co., Ltd., a sales subsidiary in its Special Products Segment in Japan in July 2018. This subsidiary was set up to engage in the sale of POS printers and peripheral devices.

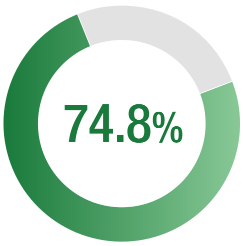
Demand for POS printers as well as peripheral devices has continued to increase in recent years in line with the growing use of mPOS systems in Japan. In addition, the market is expected to expand even further going forward. This is largely due to the reduction tax rate measure subsidies associated with the increase in Japan's consumption tax rate in October 2019, which are projected to trigger extraordinary demand, and the increase in inbound demand in the lead up to the 2020 Tokyo Olympic and Paralympic Games. Under these circumstances, Star Micronics is making every effort to strengthen its sales organization in Japan centered on the newly established subsidiary.

Star Marketing Japan Co., Ltd. based in the Star Micronics Group Tokyo Office

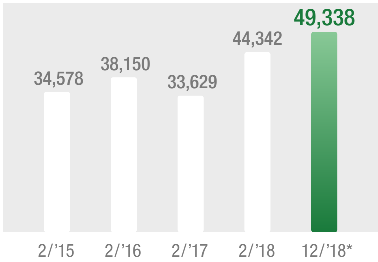
Demand for machine tools was robust in both Japan and overseas with sales hitting a record high in the fiscal period under review. While there are concerns surrounding the impact of a slowdown in economic conditions, demand is expected on the back of ongoing automation needs in the fiscal year ending December 31, 2019.

MACHINE TOOLS

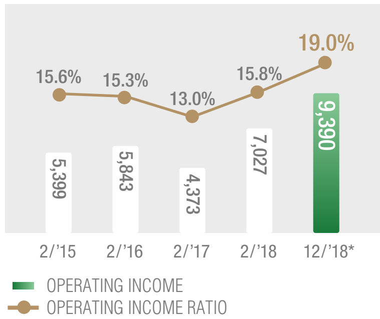
SALES BY SEGMENT



NET SALES
(Millions of yen)

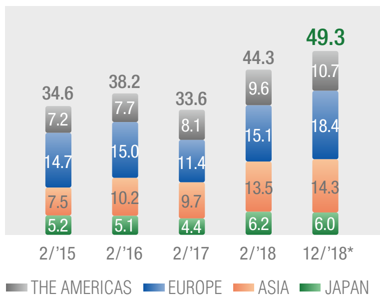


OPERATING INCOME & OPERATING INCOME RATIO
(Millions of yen, %)



Business Environment and Results in the Fiscal Period Ended December 31, 2018

MACHINE TOOLS SEGMENT SALES BY GEOGRAPHICAL REGION
(Billions of yen)



Activities in CNC automatic lathes, a mainstay product in the Machine Tools Segment, remained brisk throughout each region. As a result, sales grew substantially. In the fiscal period under review, sales volumes hit a record high expanding across all destinations. Sales were robust in the U.S. market centered on the medical equipment-related sector. In the European market, sales were especially strong in the automotive-related sector in such major markets as Germany and Italy. Turning to the Asian market, sales were also firm in the automobile, telecommunication, and medicine-related markets in China. On the domestic front, sales were strong across a wide array of sectors including those related to automobiles in Japan. From a product perspective, Star Micronics achieved considerable success through the release of SK-51, a new fixed headstock automatic lathe, as well as SMOOSS-i, a system application that employs IoT technology to monitor machine operations.

As a result, the Star Micronics Group reported sales of ¥49,338 million (US$444,486 thousand) and operating income of ¥9,390 million (US$84,595 thousand) in the Machine Tools Segment*.

Outlook for the Current Fiscal Year and Business Strategies

CNC Swiss-Type Automatic Lathe SV-20R

Conditions during the current fiscal year are expected to remain shrouded in a cloud of uncertainty impacted by such factors as trade issues between the U.S. and China and problems associated with the United Kingdom's withdrawal from the European Union. While there are concerns regarding the effects of a slowdown in economic conditions, demand is expected on the back of ongoing automation needs both in Japan and overseas. In the fiscal year ending December 31, 2019, the Star Micronics Group will work to address this demand by strengthening its production capacity. To this end, the Group will undertake a variety of measures including the introduction of new facilities and equipment. In addition, energies will be directed toward sales of fixed headstock automatic lathes.

Looking at operating results for the current fiscal year, demand is projected to remain at a high level. On this basis, sales are forecast to total ¥49,850 million. Operating income is estimated to come in at ¥9,240 million.

* 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. Due to this method of presentation, year-on-year percentage change data is not provided.

Fixed-Headstock Automatic Lathe SK-51 Newly Unveiled

Star Micronics has newly unveiled its SK-51 fixed-headstock automatic lathe to serve the large diameter machining needs of the automotive, construction and related industries.

Recognizing the upswing in demand for large diameter machining needs that go beyond small diameter CNC Swiss-type automatic lathe processing requirements, an area in which the Company is especially strong, Star Micronics plans to release the SK-51, which boasts a maximum machining diameter of 51 mm. In this instance, the Company will introduce two distinct models. Type A has two turret-type tool posts while type D has a total of three turret-type tool posts. The type D model offers a turret-type tool post with B-axis control to enable even more diverse processes such as slant machining or simultaneous 5-axis processing. Sales are scheduled to commence from October 2019.

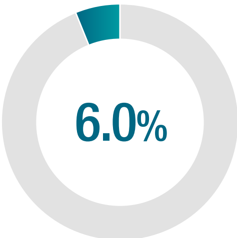
SK-51 type D

Precision Products

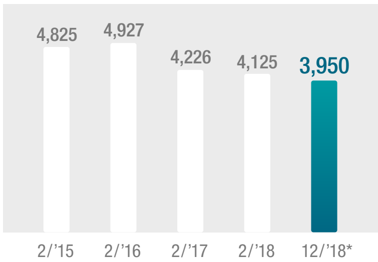
Sales of wristwatch components remained solid owing to strong sales by wristwatch makers in the first half. Turning to non-wristwatch components, sales for air conditioning and medical-related components were strong. This was despite a drop in the HDD component market. In the fiscal year ending December 31, 2019, trends in demand are projected to be sluggish for both wristwatch and non-wristwatch components.

PRECISION PRODUCTS

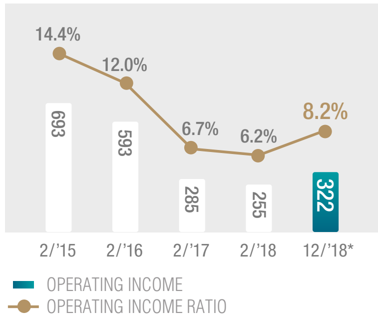
SALES BY SEGMENT



NET SALES
(Millions of yen)



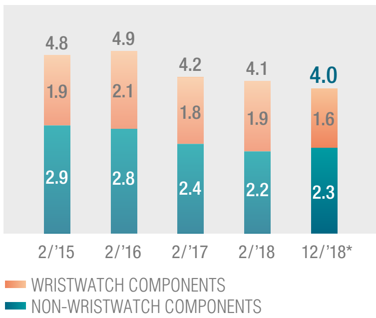
OPERATING INCOME & OPERATING INCOME RATIO
(Millions of yen, %)



Business Environment and Results in the Fiscal Period Ended December 31, 2018

The products in the Precision Products Segment are divided into two main areas: wristwatch components, a business that the Company has been involved in since it was founded, and other precision components (non-wristwatch components) such as automotive-, medical- and air-conditioner-related components.

PRECISION PRODUCTS SEGMENT SALES
(Billions of yen)



Sales of wristwatch components remained solid owing to strong sales by wristwatch maker in the first half. In specific terms, sales reached ¥1,629 million (US$14,676 thousand). While sales of HDD components were sluggish amid market shrinkage, sales for air conditioning and medical-related components were strong. As a result, sales of non-wristwatch components came to ¥2,321 million (US$20,910 thousand). As far as the Group's non-wristwatch component operations were concerned, the Star Micronics Group took steps to review its production structure and systems including overseas bases. As a part of this review, the Group sold Star Micronics Precision (Thailand) Co., Ltd., a production subsidiary in Thailand, at the end of September 2018. In addition, the Group is promoting efforts aimed at rebuilding its business organization. This includes making the decision to close the precision product department of its production subsidiary in Dalian, China, which is experiencing a downturn in profitability, around the end of 2019.

Based on the aforementioned, sales in the Precision Products Segment were ¥3,950 million (US$35,586 thousand). Operating income came to ¥322 million (US$2,901 thousand) *.

Outlook for the Current Fiscal Year and Business Strategies

In the current fiscal year, demand for wristwatch components is projected to be sluggish owing to production adjustments made by wristwatch makers. As far as non-wristwatch components are concerned, sales are forecast to decline due to the impact of efforts to reorganize production bases. Having said this, the Group is withdrawing from fields where profitability continues to decline and is focusing on rebuilding its structure and systems in such areas as wristwatch and air conditioning components, where profit margins are high. From a production perspective, the Group is ramping up its automation and streamlining endeavors while improving production efficiency in order to increase profits.

Automotive Components

In the fiscal year ending December 31, 2019, sales in the Precision Products Segment are expected to come in at ¥3,110 million and operating income ¥30 million.

* 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. Due to this method of presentation, year-on-year percentage change data is not provided.

Corporate Governance

At Star Micronics, our basic approach to corporate governance is based on fulfilling our social responsibilities as a company. To this end, we strive for management that is both appropriate and efficient at sustainably raising corporate value, while distributing an appropriate amount of the resulting profits to our shareholders and other stakeholders.

Based on a resolution at the Company's 91st General Meeting held on May 26, 2016, Star Micronics transitioned to a company with an audit and supervisory committee in order to further strengthen the supervisory function of its Board of Directors and to enhance its corporate governance capabilities.

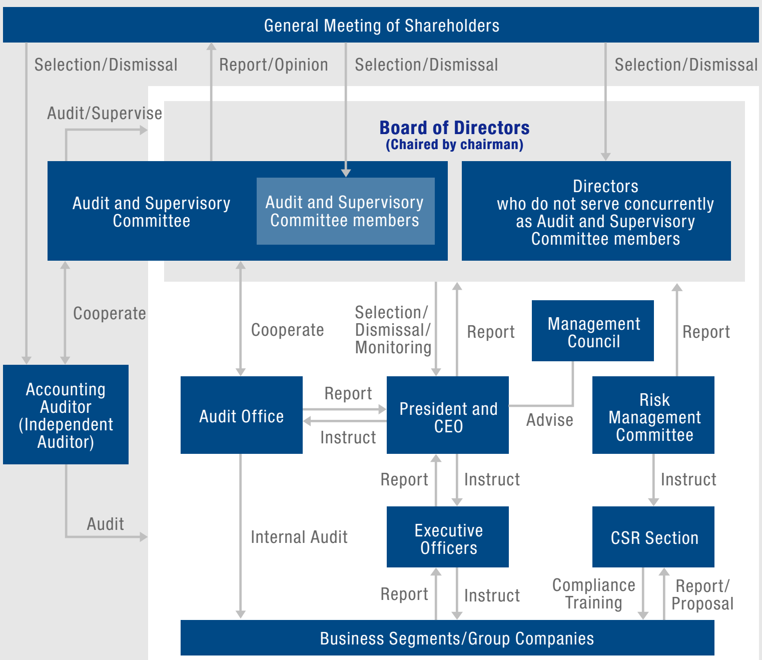
The Company has decided to set the number of internal directors including the president at three and to appoint four outside directors including directors who serve as Audit and Supervisory Committee members. In this manner, outside directors make up a majority of the Board of Directors. Based on each of the aforementioned, the Company has taken steps to further clarify the supervisory and executive roles of management. This initiative is aimed at increasing the speed at which business strategies are implemented.

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 seven directors, four of whom are appointed from outside the Company. This ensures the independence, efficacy, and efficiency of the decision-making process while fortifying the supervisory function with respect to the execution of directors' duties.

The Audit and Supervisory Committee is comprised of three 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.

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 a basic compensation that is paid monthly, a yearly bonus and stock options provided as a medium- to long-term incentive. In view of the tasks that they are asked to perform, outside directors and directors who concurrently serve as Audit and Supervisory Committee members 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 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. The amount of each bonus paid to individual directors (excluding outside directors and directors who concurrently serve as Audit and Supervisory Committee members) shall be determined in line with the status and position of each director. The Company determined that the payment of directors' bonuses falls within the scope of profit-based compensation stipulated under Article 34, Paragraph 1.3 of Japan's Corporation Tax Act at a Board of Directors' meeting held on March 28, 2019.

Turning to the granting of stock options, the amount of allocation to each director (outside directors as well as directors who serve as Audit and Supervisory Committee members) shall not exceed ¥100 million annually. Stock options shall entail the issuance of two types of stock acquisition rights (SARs): ordinary stock options granted as a medium-term incentive and stock compensation-type stock options granted as a long-term incentive. SARs shall be allocated in line with the status and position of each director.

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
		Basic compensation	Stock options	Bonus	
Directors (excluding Audit and Supervisory Committee members) (excluding outside directors)	181	97	34	50	3
Audit and Supervisory Committee members (excluding outside directors)	—	—	—	—	—
Outside directors and Audit and Supervisory Committee members	20	20	—	—	5

Notes:
1. The figures for "Stock options" and "Bonus" 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 is scheduled to pay ¥57 million in total to two directors 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 Shareholders' Meeting for the 82nd Period held on May 24, 2007.

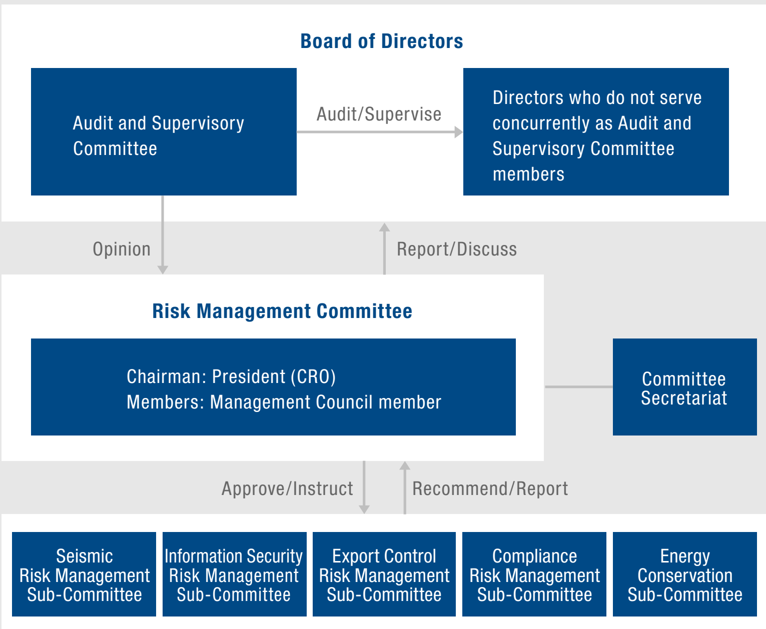
Internal Control System

Star Micronics strives to maintain an internal control system that will enable proper and efficient management to drive a continuous increase in corporate value. To strengthen internal control, the Star Micronics Global Charter of Corporate Conduct was issued, setting out the Group's basic policies on compliance. Since then, the Star Micronics Global Code of Conduct was drawn up for employees to follow, and we have been working to establish rules and organizational structures to ensure compliance at every level of our activities. 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. 2018	Feb. 2018	Feb. 2017
For the year:			
Net sales	**¥65,940**	¥60,773	¥48,937
Cost of sales	**40,478**	38,511	30,825
Selling, general and administrative expenses	**15,750**	16,052	14,505
Operating income (loss)	**9,712**	6,210	3,607
Other income (expenses) – net	**(1,029)**	149	224
Income (loss) before income taxes	**8,683**	6,359	3,831
Income taxes	**1,764**	487	572
Net income attributable to noncontrolling interests	**124**	91	78
Net income (loss) attributable to owners of the parent	**6,795**	5,781	3,181
Net cash provided by operating activities	**6,089**	8,923	5,338
Net cash (used in) provided by investing activities	**(2,950)**	(5,013)	813
Free cash flows	**3,139**	3,910	6,151
Net cash (used in) provided by financing activities	**(3,766)**	(2,926)	139
Per share:			
Basic net income (loss)	**¥186.04**	¥155.68	¥ 81.77
Diluted net income	**163.42**	136.90	74.69
Cash dividends applicable to the year	**54.00**	52.00	48.00
At year-end:			
Current assets	**¥60,376**	¥59,635	¥53,172
Net property, plant and equipment	**15,521**	14,076	12,926
Total assets	**79,938**	77,363	68,351
Long-term liabilities	**9,931**	9,697	9,935
Total equity	**49,312**	47,447	43,755
Stock exchange price per share of common stock:			
Highest	**¥2,270**	¥2,480	¥1,770
Lowest	**1,332**	1,588	1,023
Selected financial indicators:			
Equity ratio (%)	**60.3**	60.1	62.8
Return on equity (%)	**14.3**	12.9	6.9
Dividend payout ratio (%)	**29.0**	33.4	58.7
Dividend on equity (%)	**4.1**	4.3	4.1

*Star Micronics has changed its account settlement date from the end of February to December 31 for the fiscal period under review (the fiscal period ended December 31, 2018). As a transitional period, the consolidated fiscal period for the fiscal period under review 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)

Feb. 2016	Feb. 2015	Feb. 2014	Feb. 2013	Feb. 2012	Feb. 2011	Feb. 2010	Feb. 2009
¥54,458	¥50,958	¥43,482	¥37,858	¥41,654	¥35,718	¥ 29,181	¥56,953
33,558	31,355	28,047	24,683	25,753	23,265	22,326	33,535
15,165	14,126	12,829	11,595	11,948	11,024	10,840	14,873
5,735	5,477	2,606	1,580	3,953	1,429	(3,985)	8,545
(383)	605	40	2,140	(724)	(1,069)	(2,665)	(984)
5,352	6,082	2,646	3,720	3,229	360	(6,650)	7,561
1,530	1,285	1,400	1,330	717	107	1,800	3,147
101	101	103	90	85	92	105	76
3,721	4,696	1,143	2,300	2,427	161	(8,555)	4,338
3,107	4,326	2,597	483	4,466	3,520	4,769	6,152
(1,074)	(2,501)	(2,455)	(1,908)	(393)	(1,518)	(1,194)	(1,314)
2,033	1,825	142	(1,425)	4,073	2,002	3,575	4,838
(2,180)	(1,568)	(1,394)	(1,202)	(2,092)	(1,813)	(3,977)	(9,077)
¥ 87.98	¥111.36	¥ 27.17	¥ 54.66	¥ 56.94	¥ 3.71	¥(187.95)	¥ 85.66
87.69	111.05	27.14					85.63
46.00	44.00	34.00	30.00	26.00	22.00	22.00	45.00
¥50,367	¥50,533	¥41,233	¥35,827	¥38,302	¥34,836	¥ 34,346	¥44,762
14,360	15,309	14,327	13,476	10,289	10,549	11,678	15,169
67,828	70,261	59,303	52,564	51,925	49,250	50,681	64,205
2,021	617	524	303	407	423	592	459
50,200	51,903	45,698	40,710	36,980	37,096	41,261	52,986
	Yen						
¥2,238	¥1,885	¥1,422	¥988	¥958	¥1,182	¥1,020	¥2,175
1,125	1,115	857	647	657	702	595	773
72.7	72.4	75.5	76.1	70.2	73.9	80.1	81.5
7.4	9.8	2.7	6.0	6.7	0.4		7.3
52.3	39.5	125.1	54.9	45.7	593.0		52.5
3.9	3.9	3.4	3.3	3.0	2.5	2.2	3.8

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW (Fiscal periods ended December 31, 2018 and February 28, 2018)

Business Environment

Looking at economic conditions during the fiscal period ended December 31, 2018, the U.S. economy continued to enjoy a steady recovery while Europe also experienced a modest positive turnaround. In Asia, economic trends were firm overall. This was despite signs that the pickup in China had stalled. On the domestic front, the Japanese economy witnessed a gentle improvement.

Net Sales

(Millions of yen)

	2/2018	12/2018
	¥60,773	**¥65,940**

Demand in the machine tools market was strong in Japan and overseas. Demand in the POS-related market of the Special Products Segment was also solid mainly in the U.S. and Europe. As far as the precision products-related markets were concerned, demand was firm for wristwatch components. For non-wristwatch components, however, demand was weak for certain components for hard disk drives (HDDs) and other products.

Operating Income

(Millions of yen)

	2/2018	12/2018
	¥6,210	**¥9,712**

Operating income came to ¥9,712 million largely due to record high sales of machine tools.

Net Income Attributable to Owners of the Parent

(Millions of yen)

	2/2018	12/2018
	¥5,781	**¥6,795**

Net income attributable to owners of the parent amounted to ¥6,795 million after posting business restructuring expenses related to the Precision Products Segment.

Cash Dividends per Share

(Yen)

	2/2018	12/2018
	¥52	**¥54**

The annual cash dividend in the fiscal period under review increased ¥2 per share compared with the previous fiscal year, to ¥54 per share.

Total Assets

(Millions of yen)

	2/2018	12/2018
	¥77,363	**¥79,938**

Total assets as of the end of the fiscal period under review increased compared with the end of the previous fiscal year. While such accounting line items as cash and deposits decreased, this increase in total assets was largely attributable to the upswing in trade notes and accounts receivable as well as net property, plant and equipment.

Free Cash Flows

(Millions of yen)

	2/2018	12/2018
	¥3,910	**¥3,139**

Free cash flows during the fiscal period under review came to ¥3,139 million. This was mainly due to robust earnings.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

(Millions of yen)

	2/2018	12/2018
	¥3,505	**¥4,628**

Capital expenditures amounted to ¥4,628 million. This largely reflected expenses relating to introduction of production equipment in the Machine Tools Segment and construction of the Company's new head office building.

Net Sales by Region

(Millions of yen)

	2/2018	12/2018
Japan	¥10,205	**¥ 9,372**
USA	14,636	**16,631**
China	8,841	**10,359**
Germany	7,323	**8,941**
Others	19,768	**20,637**

* 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. Due to this method of presentation, year-on-year percentage change data is not provided.

INCOME ANALYSIS

Recognizing that the fiscal period ended December 31, 2018 represents a transitional period, the consolidated fiscal period 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 account settlement date is February 28, and for 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. Due to this method of presentation, year-on-year percentage change data is not provided.

Robust results on the back of record high machine tools sales

In the fiscal period under review, the Company reported consolidated net sales of ¥65,940 million (US$594,054 thousand) on the back of record high machine tools sales. Looking at economic conditions during this period, the U.S. economy continued to enjoy a steady recovery while Europe also experienced a modest positive turnaround. In Asia, economic trends were firm overall. This was despite signs that the pickup in China had stalled. On the domestic front, the Japanese economy witnessed a gentle improvement. Against this backdrop, demand in the machine tools market was strong in Japan and overseas. Demand in the POS-related market of the Special Products Segment was also solid mainly in the U.S. and Europe. As far as the precision products-related markets were concerned, demand was firm for wristwatch components. For non-wristwatch components, however, demand was weak for certain components for hard disk drives (HDDs) and other products.

The cost of sales totaled ¥40,478 million (US$364,667 thousand). As a result, gross profit came to ¥25,462 million (US$229,387 thousand).

Selling, general and administrative (SG&A) expenses amounted to ¥15,750 million (US$141,892 thousand).

Accounting for each of the aforementioned factors, operating income was ¥9,712 million (US$87,495 thousand).

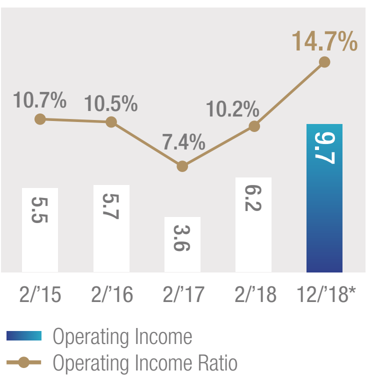
Robust net income despite the posting of business restructuring expenses

Other expenses – net came to ¥1,029 million (US$9,270 thousand). This largely reflected the posting of a foreign exchange loss – net of ¥337 million (US$3,036 thousand) and business restructuring expenses mainly in the Precision Products Segment of ¥684 million (US$6,162 thousand).

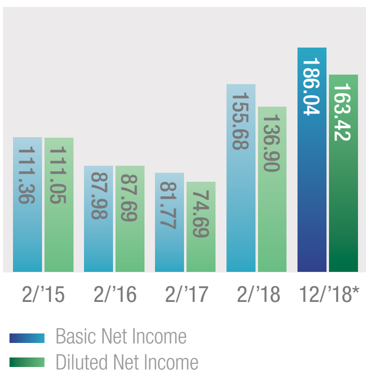
Based on the aforementioned, income before income taxes totaled ¥8,683 million (US$78,225 thousand). Net income attributable to owners of the parent after deducting income taxes and net income attributable to noncontrolling interests amounted to ¥6,795 million (US$61,216 thousand).

Basic net income per share came to ¥186.04 (US$1.68) and diluted net income per share was ¥163.42 (US$1.47).

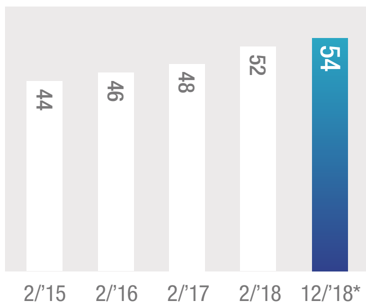
Operating Income and Operating Income Ratio
(Billions of yen, %)



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.

The annual cash dividend increased ¥2 per share compared with the previous fiscal year, to ¥54 per share for a total payout ratio of 55.2%.

Star Micronics increased its annual cash dividend ¥2 per share for the fiscal period under review, to ¥54 (US$0.49) per share. The dividend on equity (DOE) ratio came to 4.1%, a decrease of 0.2 of a percentage point compared with the previous fiscal year. The Company also undertook the repurchase of its own shares totaling ¥1,802 million (US$16,234 thousand) during the period ended December 31, 2018. Taking each of these factors into consideration, the total consolidated payout ratio was 55.2%. For the next fiscal period, Star Micronics plans to again increase its annual cash dividend ¥2 per share, to ¥56 per share.

As far as its policy toward the payment of future dividends is concerned, the Company is aiming for a total consolidated payout ratio of at least 50% that includes the repurchase of its own shares while taking into consideration DOE. Turning to Star Micronics' internal reserves, the Company will allocate funds to a wide range of areas including investment in growth businesses with the aim of ensuring sustainable growth. At the same time, Star Micronics will work to enhance its corporate value and improve shareholder returns.

FINANCIAL POSITION & LIQUIDITY

Despite a decrease in cash and cash equivalents, total assets increased mainly on the back of an upswing in property, plant and equipment

Total current assets as of December 31, 2018 stood at ¥60,376 million (US$543,928 thousand), an increase of 1.2%, or ¥741 million, compared with the end of the previous fiscal year. While cash and cash equivalents decreased 5.0%, or ¥1,104 million, compared with the balance as of February 28, 2018, to ¥20,853 million (US$187,865 thousand), this increase in current assets largely reflected higher balances of trade notes and accounts receivable, which climbed 11.9%, or ¥1,969 million, to ¥18,467 million (US$166,369 thousand), and inventories, which expanded 3.8%, or ¥654 million, to ¥17,783 million (US$160,207 thousand).

Net property, plant and equipment increased 10.3%, or ¥1,445 million, compared with the end of the previous fiscal year, to ¥15,521 million (US$139,829 thousand). This increase was essentially due to an upswing in buildings and structures, which grew 11.0%, or ¥1,767 million, to ¥17,765 million (US$160,045 thousand) and mainly reflected expenses incurred in connection with reconstruction of the Company's head office building.

The balance of investments and other assets went up 10.7%, or ¥389 million, compared with the balance as of February 28, 2018, to ¥4,041 million (US$36,405 thousand), largely on the back of an increase in investment securities of 27.6%, or ¥324 million, to ¥1,497 million (US$13,486 thousand).

Accounting for each of the aforementioned factors, total assets expanded 3.3%, or ¥2,575 million, compared with the end of previous fiscal year, to ¥79,938 million (US$720,162 thousand).

Increase in trade payables as well as liability for retirement benefits

Current liabilities increased 2.4%, or ¥476 million, compared with the end of the previous fiscal year, to ¥20,695 million (US$186,441 thousand). This increase was mainly attributable to the upswing in payables of 17.0%, or ¥2,045 million, compared with the balance as of February 28, 2018, to ¥14,052 million (US$126,595 thousand).

Total long-term liabilities stood at ¥9,931 million (US$89,469 thousand), up 2.4%, or ¥234 million, compared with the previous fiscal year-end. This largely reflected the increase in liability for retirement benefits of 22.3%, or ¥319 million, compared with the balance as of the end of the previous fiscal year, to ¥1,752 million (US$15,784 thousand).

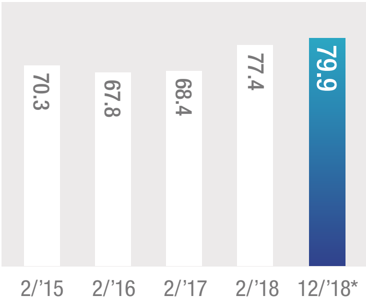
Increase in equity through the accumulation of retained earnings

Total equity increased 3.9%, or ¥1,865 million, compared with the end of the previous fiscal year, to ¥49,312 million (US$444,252 thousand). The principal factor behind this increase was the upswing in retained earnings of 11.0%, or ¥3,615 million, compared with the balance as of February 28, 2018, to ¥36,461 million (US$328,477 thousand). In addition, the negative balance of treasury stock – at cost climbed ¥549 million compared with the previous fiscal year-end, to ¥12,068 million (US$108,721 thousand).

The equity ratio came in at 60.3% as of December 31, 2018, up 0.2 of a percentage point compared with the end of the previous fiscal year owing to the increase in total equity. Equity per share as of the end of the fiscal period under review increased ¥81.93, compared with the previous fiscal year-end, to ¥1,345.08 (US$12.12).

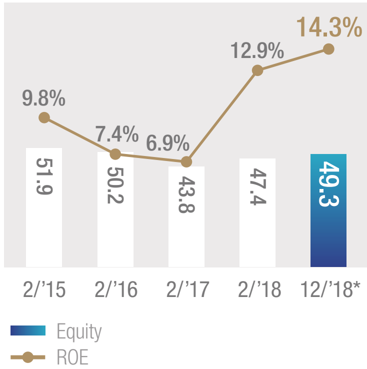
Total Assets

(Billions of yen)



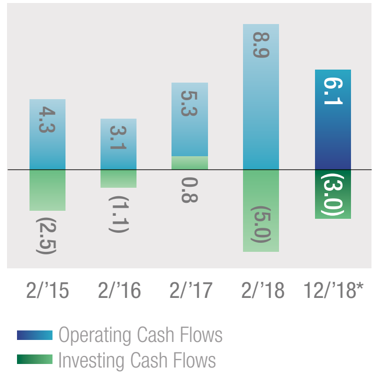
Equity and Return on Equity

(Billions of yen, %)



Cash Flows

(Billions of yen)



CASH FLOWS

Undertook capital expenditures and repurchase of the Company's own shares drawing on Star Micronics' abundant cash flows from operating activities

Net cash provided by operating activities came to ¥6,089 million (US$54,856 thousand). Major cash inflows were income before income taxes of ¥8,683 million (US$78,225 thousand) and depreciation and amortization of ¥1,954 million (US$17,603 thousand). Principal cash outflows included increase in trade receivables of ¥2,522 million (US$22,721 thousand) and income taxes – paid of ¥1,559 million (US$14,045 thousand).

Net cash used in investing activities totaled ¥2,950 million (US$26,577 thousand). Cash outflows during the fiscal period under review mainly comprised purchases of property, plant and equipment of ¥3,408 million (US$30,703 thousand) and purchases of marketable and investment securities of ¥828 million (US$7,459 thousand).

Net cash used in financing activities amounted to ¥3,766 million (US$33,928 thousand). The principal cash outflows included dividends paid to shareholders of ¥1,975 million (US$17,793 thousand) and payments for purchase of treasury stock of ¥1,802 million (US$16,234 thousand).

Taking into account each of the aforementioned activities as well as negative foreign currency translation adjustments on cash and cash equivalents of ¥477 million (US$4,297 thousand) and the net decrease in cash and cash equivalents of ¥1,104 million (US$9,946 thousand), cash and cash equivalents stood at ¥20,853 million (US$187,865 thousand) as of December 31, 2018.

CAPITAL EXPENDITURES AND R&D EXPENSES

Reconstruction of the Company's head office and investments in machine tools

In the fiscal period under review, capital expenditures totaled ¥4,628 million (US$41,694 thousand). In the fiscal year ending December 31, 2019, Star Micronics plans to undertake capital expenditures of ¥3,270 million focusing mainly on production facilities and equipment in the Machine Tools Segment.

Special Products–Expenditures in the Special Products Segment increased ¥38 million compared with the previous fiscal year, to ¥162 million (US$1,459 thousand). In the fiscal year ending December 31, 2019, the Company is budgeting expenditures of ¥337 million in this segment mainly for dies used in the manufacture of new products.

Machine Tools–Expenditures in the Machine Tools Segment increased ¥1,510 million compared with the previous fiscal year, to ¥2,065 million (US$18,604 thousand). In the fiscal period ending December 31, 2019, Star Micronics is looking to undertake expenditures to the amount of ¥2,286 million. Expenses will largely cover such activities as the renewal and maintenance of facilities as well as the installation of machinery and equipment at the Group's Dalian Plant in China.

Precision Products–Expenditures in the Precision Products Segment came to ¥522 million (US$4,703 thousand), up ¥235 million compared with the previous fiscal year. In the fiscal period ending December 31, 2019, the Company expects to spend ¥159 million, mostly for equipment and facilities in order to streamline operations while saving labor.

Development of new products by the R&D Center and business divisions

R&D Center–After terminating activities at the former R&D Center, Star Micronics set up a research and development base as part of a new organizational structure. Over the ensuing period, the Company has worked diligently to support its business divisions by introducing the latest artificial intelligence (AI) and Internet of Things (IoT) technologies at this base located in its newly established Group Tokyo Office. In specific terms, Star Micronics has pursued the potential of various avenues including the development of systems that help monitor the operations of the Company's mainstay machine tools as well as services and systems that employ AI through verification tests at its own plants and facilities.

Special Products Segment–In the Special Products Segment, Star Micronics is working on the development of high-value-added products that target growth markets focusing mainly on small printers.

In the fiscal period under review, the Company unveiled a host of new products under the mCollection® brand name. This brand is a collection that includes the mC-Print2™ and mC-Print3™ series of compact and stylish design small thermal printers as well as receipt printers, scanners, customer displays and cash drawers that allows Star Micronics to offer optimal mPOS peripheral devices to retailers irrespective of their industry category or size.

The mC-Print2™ is a 96mm wide, 113mm deep and 100mm high 2-inch printer that boasts a compact, space-saving design. Ideal for use in the kitchen, the 3-inch mC-Print3™ offers splash-proof capabilities equivalent to the IPX2 together with an insect-proof design. Both series provide a de-curl function that prevents paper from curling and are equipped with multiple LAN/Bluetooth/USB interfaces for printing and data status communication. Moreover, both series enable printing data communication together with the simultaneous recharging of iOS terminals including iPhones and iPads to a maximum output of 2.4A using a lightning cable connected to the printer's USB Type A port. In order to enhance the convenience of users, each series comes with such support features as an easy setup guide and online manuals that help resolve any pre- and post-installation issues.

From a software perspective, the mC-Print2™ and mC-Print3™ series are compatible with the Company's proprietary AllReceipts electronic receipt service. Steps have also been taken to develop a dedicated utility application that employs a QR code in a bid to facilitate easy setup. In addition, Star Micronics has developed the cloud computing-based PromoPRNT. PromoPRNT is a coupon service that allows retailers to advertise their promotions in a simple and effective way by printing coupons and promotional materials right onto the receipt in an illustrative format. This software enhances the convenience of both consumers and retail stores and can be used as a communication tool between both parties.

Machine Tools Segment–Focusing on the basic functions of the SR-38 series, Star Micronics released the new SR-38J model of Swiss-type automatic lathes at an affordable price in the fiscal period under review. Mainly targeting manufacturing industries in the automotive, hydraulic and pneumatic device as well as general machinery fields, SR-38J can be used for the machining of 38 mm large-diameter workpieces. Adopting a portal-type tool post that has been arranged to surround the guide bush, SR-38J can accommodate a variety of tooling layouts. This new model also addresses a wide array of processing needs by allowing users to switch between guide bush and non-guide bush modes.

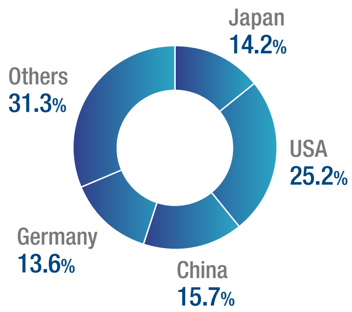
In addition, Star Micronics developed SK-51, a fixed headstock automatic lathe, as a part of efforts to cultivate new fields. With a maximum machining diameter of 51 mm, the largest in the Company's lineup, this new offering aims to serve the large-diameter machining needs of the automotive, construction and related industries. In this instance, Star Micronics has released two SK-51 types. Type A has two turret-type tool posts and Type D has three turret-type tool posts with B-axis control. Each new offering was exhibited at the AMB2018 international exhibition for metal working held in Germany in September 2018 and JIMTOF2018, the 29th Japan International Machine Tool Fair held in November 2018.

Turning to the development of software and initiatives aimed at addressing the growing focus on a burgeoning IoT era, Star Micronics commenced sales of its Star Monitoring & Operator Support System (SMOOSS-i), a web-based application that remotely monitors the operations of machinery, from July 2018. Leveraging the system's basic monitoring function and employing a local area network to connect multiple machines operating within a plant site, users can confirm the operating status of machinery from their offices using personal computers, smartphones or other tablet terminals on a real-time basis. At the same time, SMOOSS-i allows users to maintain an historic record of the operating status of individual machines as well as other pertinent data including production performance by processing component. By visualizing this data, positive steps can then be taken to improve rates of machine operations. In addition to these features, SMOOSS-i fulfills an online work recording function, thereby alleviating the need for machine operators to maintain a paper trail of such key activities as the exchange of cutting tools and daily inspections. The system also provides instant alert notifications of any issues in the event a machine becomes inactive. This in turn helps to increase operating efficiency.

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.
Precision Products						Shanghai S&E Precision Co., Ltd.		

Note: Star Micronics transferred all of its shares in Star Micronics Precision (Thailand) Co., Ltd. on September 28, 2018. The company was subsequently removed from the scope of consolidation as a subsidiary company.

Substantial increase in overseas sales

By region, net sales in the U.S. came to ¥16,631 million (US$149,829 thousand).

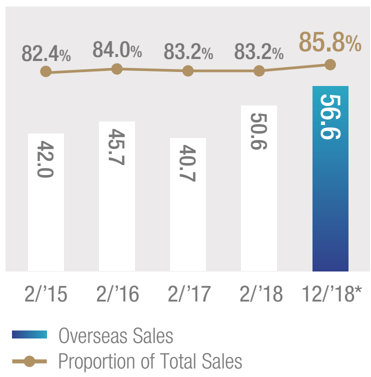
Net sales in China amounted to ¥10,359 million (US$93,324 thousand).

In Germany, net sales were ¥8,941 million (US$80,550 thousand).

In Japan, net sales totaled ¥9,372 million (US$84,432 thousand).

Overseas Sales and Proportion of Total Sales

(Billions of yen, %)



CONSOLIDATED BALANCE SHEET

Star Micronics Co., Ltd. and Consolidated Subsidiaries
December 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**December 31, 2018**	February 28, 2018	**December 31, 2018**
Current assets:			
Cash and cash equivalents (Note 18)	**¥ 20,853**	¥ 21,957	**$ 187,865**
Marketable securities (Notes 4 and 18)	**500**	1,000	**4,505**
Short-term investments (Notes 5 and 18)	**559**	599	**5,036**
Receivables (Notes 6 and 18):			
Trade notes and accounts receivable	**18,467**	16,498	**166,369**
Unconsolidated subsidiaries and associated companies	**289**	458	**2,604**
Other	**1,130**	967	**10,180**
Allowance for doubtful receivables	**(142)**	(145)	**(1,279)**
Inventories (Note 7)	**17,783**	17,129	**160,207**
Deferred tax assets (Note 13)	**462**	664	**4,162**
Prepaid expenses and other	**475**	508	**4,279**
Total current assets	**60,376**	59,635	**543,928**
Property, plant and equipment (Note 8):			
Land	**2,554**	2,747	**23,009**
Buildings and structures	**17,765**	15,998	**160,045**
Machinery and equipment	**23,131**	23,468	**208,388**
Lease assets (Note 17)	**150**	153	**1,351**
Construction in progress	**23**	2,676	**207**
Total	**43,623**	45,042	**393,000**
Accumulated depreciation	**(28,102)**	(30,966)	**(253,171)**
Net property, plant and equipment	**15,521**	14,076	**139,829**
Investments and other assets:			
Investment securities (Notes 4 and 18)	**1,497**	1,173	**13,486**
Investments in unconsolidated subsidiaries and associated companies	**388**	393	**3,496**
Deferred tax assets (Note 13)	**1,031**	907	**9,288**
Other assets	**1,125**	1,179	**10,135**
Total investments and other assets	**4,041**	3,652	**36,405**
Total	**¥ 79,938**	¥ 77,363	**$ 720,162**

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen December 31, 2018	Millions of yen February 28, 2018	Thousands of U.S. dollars (Note 1) December 31, 2018
Current liabilities:			
Payables (Note 18):			
Trade notes and accounts payable	**¥ 10,431**	¥ 10,311	**$ 93,973**
Unconsolidated subsidiaries and associated companies	**1**	1	**9**
Other	**3,620**	1,695	**32,613**
Short-term bank loans (Notes 9 and 18)	**2,500**	2,500	**22,523**
Current portion of long-term debt (Note 9)	**25**	28	**225**
Income taxes payable (Note 13)	**821**	842	**7,396**
Accrued expenses	**1,027**	1,150	**9,252**
Deferred tax liabilities (Note 13)	**117**	117	**1,054**
Other	**2,153**	3,575	**19,396**
Total current liabilities	**20,695**	20,219	**186,441**
Long-term liabilities:			
Convertible bonds (Notes 9 and 18)	**8,039**	8,052	**72,424**
Long-term debt (Note 9)	**41**	53	**369**
Liability for retirement benefits (Note 10)	**1,752**	1,433	**15,784**
Deferred tax liabilities (Note 13)	**2**	3	**18**
Other	**97**	156	**874**
Total long-term liabilities	**9,931**	9,697	**89,469**
Commitments and contingent liabilities (Note 17)			
Equity (Notes 11, 12 and 24):			
Common stock – authorized, 158,000,000 shares; issued, 45,772,234 shares at December 31, 2018 and 46,774,634 shares at February 28, 2018	**12,722**	12,722	**114,613**
Capital surplus	**13,877**	13,877	**125,018**
Stock acquisition rights (Note 12)	**314**	250	**2,829**
Retained earnings	**36,461**	32,846	**328,477**
Treasury stock – at cost, 9,910,156 shares at December 31, 2018 and 9,944,576 shares at February 28, 2018	**(12,068)**	(11,519)	**(108,721)**
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	**87**	165	**784**
Foreign currency translation adjustments	**(2,301)**	(1,186)	**(20,730)**
Defined retirement benefit plans	**(540)**	(382)	**(4,865)**
Total	**48,552**	46,773	**437,405**
Noncontrolling interests	**760**	674	**6,847**
Total equity	**49,312**	47,447	**444,252**
Total	**¥ 79,938**	¥ 77,363	**$ 720,162**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Net sales	¥65,940	¥60,773	$594,054
Cost of sales (Note 10)	40,478	38,511	364,667
Gross profit	25,462	22,262	229,387
Selling, general and administrative expenses (Notes 10 and 14)	15,750	16,052	141,892
Operating income	9,712	6,210	87,495
Other income (expenses):			
Interest and dividend income	187	167	1,685
Interest expense	(7)	(4)	(63)
Foreign exchange (loss) gain – net	(337)	530	(3,036)
Gain on sale of property, plant and equipment	6	33	54
Gain on sale of shares of subsidiaries and associates (Note 15)	149		1,342
Loss on disposal of property, plant and equipment	(122)	(48)	(1,099)
Loss on impairment of long-lived assets (Note 8)	(173)	(642)	(1,559)
Business restructuring expenses (Note 16)	(684)		(6,162)
Other – net	(48)	113	(432)
Other income (expenses) – net	(1,029)	149	(9,270)
Income before income taxes	8,683	6,359	78,225
Income taxes (Note 13)**:**			
Current	1,599	1,656	14,405
Deferred	165	(1,169)	1,487
Total income taxes	1,764	487	15,892
Net income	6,919	5,872	62,333
Net income attributable to noncontrolling interests	124	91	1,117
Net income attributable to owners of the parent	¥ 6,795	¥ 5,781	$ 61,216
	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 3.s, 11 and 21)**:**			
Basic net income	¥186.04	¥155.68	$1.68
Diluted net income	163.42	136.90	1.47
Cash dividends applicable to the year	54.00	52.00	0.49

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Net income	¥ 6,919	¥5,872	$ 62,333
Other comprehensive income (Note 20)**:**			
Unrealized (loss) gain on available-for-sale securities	(78)	25	(702)
Foreign currency translation adjustments	(1,149)	200	(10,351)
Defined retirement benefit plans	(158)	440	(1,424)
Share of other comprehensive gain (loss) in associates	0	(10)	0
Total other comprehensive income	(1,385)	655	(12,477)
Comprehensive income	¥ 5,534	¥6,527	$ 49,856
Total comprehensive income attributable to (Note 20)**:**			
Owners of the parent	¥ 5,443	¥6,414	$ 49,036
Noncontrolling interests	91	113	820

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2018

	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, February 28, 2017	37,292	¥12,722	¥13,939	¥210	¥29,096	¥(10,783)	¥140	¥(1,354)	¥(822)	¥43,148	¥607	¥43,755
Net income attributable to owners of the parent					5,781					5,781		5,781
Cash dividends, ¥52.0 per share					(1,823)					(1,823)		(1,823)
Purchase of treasury stock	(559)					(1,145)				(1,145)		(1,145)
Disposal of treasury stock	97		29			110				139		139
Retirement of treasury stock			(91)		(208)	299						
Net change in the year				40			25	168	440	673	67	740
Balance, February 28, 2018	36,830	¥12,722	¥13,877	¥250	¥32,846	¥(11,519)	¥165	¥(1,186)	¥(382)	¥46,773	¥674	¥47,447
Net income attributable to owners of the parent					6,795					6,795		6,795
Cash dividends, ¥54.0 per share					(1,977)					(1,977)		(1,977)
Purchase of treasury stock	(1,003)					(1,801)				(1,801)		(1,801)
Disposal of treasury stock	35		8			41				49		49
Retirement of treasury stock			(8)		(1,203)	1,211						
Net change in the year				64			(78)	(1,115)	(158)	(1,287)	86	(1,201)
Balance, December 31, 2018	35,862	¥12,722	¥13,877	¥314	¥36,461	¥(12,068)	¥ 87	¥(2,301)	¥(540)	¥48,552	¥760	¥49,312

	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, February 28, 2018	$114,613	$125,018	$2,252	$295,910	$(103,775)	$1,486	$(10,685)	$(3,441)	$421,378	$6,072	$427,450
Net income attributable to owners of the parent				61,216					61,216		61,216
Cash dividends, $0.49 per share				(17,811)					(17,811)		(17,811)
Purchase of treasury stock					(16,225)				(16,225)		(16,225)
Disposal of treasury stock		72			369				441		441
Retirement of treasury stock		(72)		(10,838)	10,910						
Net change in the year			577			(702)	(10,045)	(1,424)	(11,594)	775	(10,819)
Balance, December 31, 2018	$114,613	$125,018	$2,829	$328,477	$(108,721)	$ 784	$(20,730)	$(4,865)	$437,405	$6,847	$444,252

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Operating activities:			
Income before income taxes	¥ 8,683	¥ 6,359	$ 78,225
Adjustments for:			
Income taxes – paid	(1,559)	(1,377)	(14,045)
Depreciation and amortization	1,954	2,198	17,603
Loss on impairment of long-lived assets	173	642	1,559
Gain on sale of shares of subsidiaries and associates	(149)		(1,342)
Business restructuring expenses	684		6,162
Provision for doubtful receivables	1	70	9
Loss on sale and disposal of property, plant and equipment	116	15	1,045
Changes in assets and liabilities:			
Increase in trade receivables	(2,522)	(2,460)	(22,721)
Increase in inventories	(1,152)	(653)	(10,378)
Increase in trade payables	1,068	3,345	9,622
Increase in liability for retirement benefits	101	94	910
Other – net	(1,309)	690	(11,793)
Total adjustments	(2,594)	2,564	(23,369)
Net cash provided by operating activities	6,089	8,923	54,856
Investing activities:			
Purchases of property, plant and equipment	(3,408)	(3,477)	(30,703)
Proceeds from sale of property, plant and equipment	386	56	3,477
Decrease (increase) in short-term investments	17	(467)	153
Purchases of marketable and investment securities	(828)	(2,234)	(7,459)
Proceeds from sale of marketable and investment securities	790	990	7,117
Proceeds from sale of shares of subsidiaries and associates resulting in change in scope of consolidation	237		2,135
Other – net	(144)	119	(1,297)
Net cash used in investing activities	(2,950)	(5,013)	(26,577)
Financing activities:			
Dividends paid to shareholders	(1,975)	(1,821)	(17,793)
Dividends paid to noncontrolling shareholders of consolidated subsidiaries	(6)	(45)	(54)
Payments for purchase of treasury stock	(1,802)	(1,148)	(16,234)
Disposal of treasury stock	43	118	387
Other – net	(26)	(30)	(234)
Net cash used in financing activities	(3,766)	(2,926)	(33,928)
Foreign currency translation adjustments on cash and cash equivalents	(477)	495	(4,297)
Net (decrease) increase in cash and cash equivalents	(1,104)	1,479	(9,946)
Cash and cash equivalents at beginning of year	21,957	20,478	197,811
Cash and cash equivalents at end of year	¥20,853	¥21,957	$187,865

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2018

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 February 28, 2018 to conform to the classifications used in the year ended December 31, 2018.

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 ¥111 to $1, the approximate rate of exchange at December 31, 2018.

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. Change in Consolidated Fiscal Year-end Date

The Company and its consolidated subsidiaries in Japan changed their account settlement dates from the last day of February to December 31 each year, and the consolidated account settlement date was changed from the last day of February to December 31 each year effective from the fiscal period under review. Through this change and by ensuring that the Company and all of its consolidated subsidiaries share the same account settlement date, the Company is better positioned to promote uniform Group-wide management while at the same time securing increased management transparency through the timely and proper disclosure of its performance and results, as well as other pertinent information.

In accordance with this change, the account settlement period for the Company and its consolidated subsidiaries in Japan is the 10-month period from March 1, 2018 to December 31, 2018, and the 12-month period from January 1, 2018 to December 31, 2018 for overseas consolidated subsidiaries for the fiscal period under review.

Meanwhile, the Company has taken steps to adjust the profit and loss of overseas consolidated subsidiaries for the period from January 1, 2018 to February 28, 2018 through the consolidated statements of income, with net sales, operating income and income before income taxes for this period amounting to ¥11,019 million ($99,270 thousand), ¥649 million ($5,847 thousand) and ¥709 million ($6,387 thousand), respectively. In addition, other comprehensive loss amounted to ¥1,006 million ($9,063 thousand).

The fiscal year end of all consolidated subsidiaries matches the consolidated account settlement date.

3. Summary of Significant Accounting Policies

a. Consolidation

The consolidated financial statements as of December 31, 2018, include the accounts of the Company and its 18 (18 at February 28, 2018) 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 at February 28, 2018) 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; and (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.

c. Business Combinations

Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

d. 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.

e. 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.

f. 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.

g. 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.

h. 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.

i. Retirement and Pension Plans

The Company has a non-contributory 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 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 foreign consolidated subsidiaries have lump-sum retirement benefit plans or defined contribution pension plans.

j. 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.

k. Stock Options

Compensation expense for employee stock options which 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 balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

l. 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.

m. Leases

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

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

Tax Effect Accounting

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. Earlier application is permitted for annual periods ending on or after March 31, 2018.

The Company expects to apply the revised accounting standard for annual periods beginning on or after January 1, 2019, and is in the process of measuring the effects of applying the revised accounting standard in future applicable periods.

Revenue Recognition

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after January 1, 2022, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

4. Marketable and Investment Securities

Marketable and investment securities at December 31, 2018 and February 28, 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Current:			
Corporate and other bonds		¥ 500	
Trust fund investments and other	¥ 500	500	$ 4,505
Total	¥ 500	¥1,000	$ 4,505
Non-current:			
Equity securities	¥ 241	¥ 326	$ 2,171
Corporate and other bonds	1,061	654	9,558
Trust fund investments and other	195	193	1,757
Total	¥1,497	¥1,173	$13,486

The costs and aggregate fair values of securities classified as available-for-sale at December 31, 2018 and February 28, 2018, were as follows:

	Millions of yen			
December 31, 2018	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	¥ 115	¥59		¥ 174
Corporate and other bonds	1,061			1,061
Trust fund investments and other	529	26		555

	Millions of yen			
February 28, 2018	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	¥ 112	¥146		¥ 258
Corporate and other bonds	1,154			1,154
Trust fund investments and other	529	41		570

	Thousands of U.S. dollars (Note 1)			
December 31, 2018	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	$1,036	$532		$1,568
Corporate and other bonds	9,559			9,559
Trust fund investments and other	4,766	234		5,000

Proceeds from sales of available-for-sale securities for the years ended December 31, 2018 and February 28, 2018, were ¥5,790 million ($52,162 thousand) and ¥4,490 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended December 31, 2018, were ¥5 million ($45 thousand) and nil, and for the year ended February 28, 2018, were both nil, respectively.

5. Short-term Investments

Short-term investments at December 31, 2018 and February 28, 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Deposits over three-month period	¥414	¥426	$3,730
Other	145	173	1,306
Total	¥559	¥599	$5,036

6. 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 ¥1,286 million ($11,586 thousand) and ¥1,230 million at December 31, 2018 and February 28, 2018, respectively.

7. Inventories

Inventories at December 31, 2018 and February 28, 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Merchandise	¥ 760	¥ 672	$ 6,847
Finished products	9,288	9,568	83,675
Work in process	4,539	4,251	40,892
Raw materials and supplies	3,196	2,638	28,793
Total	¥17,783	¥17,129	$160,207

8. Long-lived Assets

The Group reviewed its long-lived assets for impairment as of the years ended December 31, 2018 and February 28, 2018, and recognized impairment losses of ¥173 million ($1,559 thousand) and ¥642 million as other expenses, respectively.

The losses for the year ended December 31, 2018 were for production facilities used by the Precision Products Segment and due to a downturn in profitability and the cooperate dormitory due to review of optimal use in the future and abolition of use, and the losses for the year ended February 28, 2018 were for production facilities used by the Precision Products Segment and due to a downturn in profitability, and for the corporate dormitory due to the planned sale.

The recoverable amounts of these assets as of December 31, 2018 were measured at their net selling price, primarily evaluated at the estimated selling prices. The recoverable amounts of these assets as of February 28, 2018 were measured at their net selling prices determined by mainly real estate appraisals.

9. Short-term Bank Loans and Long-term Debt

Short-term bank loans at December 31, 2018 and February 28, 2018, consisted of bank overdrafts. The annual interest rates applicable for the years ended December 31, 2018 and February 28, 2018, were 0.10% and 0.12%, respectively.

Long-term debt at December 31, 2018 and February 28, 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Zero-coupon convertible bonds due 2021	¥8,039	¥8,052	$72,424
Lease obligations	66	81	594
Total	8,105	8,133	73,018
Less: current portion	25	28	225
Long-term debt, less current portion	¥8,080	¥8,105	$72,793

Annual maturities of long-term debt at December 31, 2018, were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2019	¥ 25	$ 225
2020	21	189
2021	8,014	72,198
2022	6	54
Total	¥8,066	$72,666

Under specific conditions, the convertible bonds outstanding at December 31, 2018, are convertible into 4,720 thousand shares of common stock of the Company from June 30, 2016 to June 2, 2021 at ¥1,695 ($15.27) per share. The conversion prices of the convertible bonds are subject to adjustments in certain circumstances.

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, in most circumstances, entitled to pension payments.

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, 2018 and February 28, 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Balance at beginning of year	¥9,927	¥9,877	$89,433
Current service cost	151	182	1,360
Interest cost	88	105	793
Actuarial gains and losses	26	162	234
Benefits paid	(311)	(399)	(2,802)
Others	(5)	0	(45)
Balance at end of year	¥9,876	¥9,927	$88,973

(2) The changes in plan assets for the years ended December 31, 2018 and February 28, 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Balance at beginning of year	¥8,494	¥8,264	$76,522
Expected return on plan assets	177	206	1,595
Actuarial gains and losses	(427)	187	(3,847)
Contributions from the employer	191	236	1,721
Benefits paid	(311)	(399)	(2,802)
Balance at end of year	¥8,124	¥8,494	$73,189

(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, 2018 and February 28, 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Funded defined benefit obligation	¥ 9,806	¥ 9,861	$ 88,342
Plan assets	(8,124)	(8,494)	(73,189)
Total	1,682	1,367	15,153
Unfunded defined benefit obligation	70	66	631
Net liability arising from defined benefit obligation	¥ 1,752	¥ 1,433	$ 15,784

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Liability for retirement benefits	¥1,752	¥1,433	$15,784
Net liability arising from defined benefit obligation	¥1,752	¥1,433	$15,784

(4) The components of net periodic benefit costs for the years ended December 31, 2018 and February 28, 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Service cost	¥ 151	¥ 182	$ 1,360
Interest cost	88	105	793
Expected return on plan assets	(177)	(206)	(1,595)
Recognized net actuarial gains and losses	230	249	2,072
Net periodic benefit costs	¥ 292	¥ 330	$ 2,630

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended December 31, 2018 and February 28, 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Actuarial gains and losses	¥(223)	¥275	$(2,009)
Total	¥(223)	¥275	$(2,009)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of December 31, 2018 and February 28, 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Unrecognized actuarial gains and losses	¥770	¥547	$6,937
Total	¥770	¥547	$6,937

(7) Plan assets

a. Components of plan assets

Plan assets as of December 31, 2018 and February 28, 2018, consisted of the following:

	December 31, 2018	February 28, 2018
Debt investments	24%	23%
Equity investments	21	23
General account	35	34
Others	20	20
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, 2018 and February 28, 2018, are set forth as follows:

	December 31, 2018	February 28, 2018
Discount rate	1.1%	1.1%
Expected rate of return on plan assets	2.5%	2.5%
Expected rate of salary increase	3.0%	3.0%

(9) Defined contribution pension plan

The amounts of the required contribution to the defined contribution plans of the consolidated subsidiaries were ¥150 million ($1,351 thousand) and ¥149 million for the years ended December 31, 2018 and February 28, 2018, 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, 2018, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2012 Stock Option	6 directors 2 executive officers 14 employees	113,000 shares	July 2, 2012	¥ 827	From June 30, 2014 to June 29, 2018
2013 Stock Option	6 directors 2 executive officers 12 employees 18 directors of subsidiaries	192,000 shares	July 5, 2013	¥1,119	From June 29, 2015 to June 28, 2019
2014 I Stock Option	5 directors	23,100 shares	June 9, 2014	¥ 1	From June 9, 2014 to June 8, 2044
2014 II Stock Option	5 directors 4 executive officers 18 employees 9 directors of subsidiaries	183,000 shares	July 15, 2014	¥1,466	From July 1, 2016 to June 30, 2020
2015 I Stock Option	6 directors	17,100 shares	June 15, 2015	¥ 1	From June 15, 2015 to June 14, 2045
2015 II Stock Option	5 directors 3 executive officers 16 employees 9 directors of subsidiaries	154,000 shares	June 15, 2015	¥2,203	From June 30, 2017 to June 29, 2021
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

The stock option activity was as follows:

	Shares											
	2012 Stock Option	2013 Stock Option	2014 I Stock Option	2014 II Stock Option	2015 I Stock Option	2015 II Stock Option	2016 I Stock Option	2016 II Stock Option	2017 I Stock Option	2017 II Stock Option	2018 I Stock Option	2018 II Stock Option
Year ended February 28, 2018												
Non-vested												
February 28, 2017 – Outstanding						152,000		168,000				
Granted									24,700	148,000		
Canceled						(7,000)		(11,000)		(2,000)		
Vested						(145,000)			(24,700)			
February 28, 2018 – Outstanding								157,000		146,000		
Vested												
February 28, 2017 – Outstanding	20,000	111,200	18,900	167,900	12,900		36,200					
Vested						145,000			24,700			
Exercised	(16,000)	(41,200)		(38,500)								
Canceled		(7,000)		(7,000)		(2,000)						
February 28, 2018 – Outstanding	4,000	63,000	18,900	122,400	12,900	143,000	36,200		24,700			
Year ended December 31, 2018												
Non-vested												
February 28, 2018 – Outstanding								157,000		146,000		
Granted											24,400	175,000
Canceled										(2,000)		
Vested								(157,000)			(24,400)	
December 31, 2018 – Outstanding										144,000		175,000
Vested												
February 28, 2018 – Outstanding	4,000	63,000	18,900	122,400	12,900	143,000	36,200		24,700			
Vested								157,000			24,400	
Exercised	(2,000)	(10,800)		(5,000)				(17,000)				
Canceled	(2,000)					(2,000)						
December 31, 2018 – Outstanding		52,200	18,900	117,400	12,900	141,000	36,200	140,000	24,700		24,400	
Exercise price	¥ 827	¥1,119	¥ 1	¥1,466	¥ 1	¥2,203	¥ 1	¥1,289	¥ 1	¥1,830	¥ 1	¥2,017
Average stock price at exercise	¥1,853	¥2,053		¥1,914				¥1,852				
Fair value price at grant date	¥ 167	¥ 191	¥1,209	¥ 265	¥1,995	¥ 407	¥ 988	¥ 165	¥1,384	¥ 246	¥1,644	¥ 308

The assumptions used to measure fair value of the 2018 I Stock Option were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	30.641%
Estimated remaining outstanding period:	4.3 years
Estimated dividend:	¥52.00 per share
Risk free interest rate:	(0.100)%

The assumptions used to measure fair value of the 2018 II Stock Option were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	31.377%
Estimated remaining outstanding period:	4.6 years
Estimated dividend:	¥52.00 per share
Risk free interest rate:	(0.101)%

13. 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 30.2% for each of the years ended December 31, 2018 and February 28, 2018.

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, 2018 and February 28, 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	**December 31, 2018**
Current:			
Deferred tax assets			
Unrealized profit on inventories	**¥ 488**	¥ 353	**$ 4,396**
Accrued bonuses	**235**	276	**2,117**
Inventories	**166**	180	**1,496**
Tax loss carryforwards	**51**	274	**460**
Other – net	**271**	167	**2,441**
Less valuation allowance	**(72)**	(34)	**(649)**
Total	**1,139**	1,216	**10,261**
Deferred tax liabilities			
Undistributed earnings of associated companies	**(665)**	(543)	**(5,991)**
Tax-deductible inventory losses	**(49)**	(61)	**(441)**
Other – net	**(80)**	(65)	**(721)**
Total	**(794)**	(669)	**(7,153)**
Net deferred tax assets (liabilities)	**¥ 345**	¥ 547	**$ 3,108**
Non-current:			
Deferred tax assets			
Liability for retirement benefits	**¥ 521**	¥ 429	**$ 4,694**
Depreciation	**337**	309	**3,036**
Impairment loss	**174**	201	**1,568**
Write-down of investment securities	**45**	45	**405**
Tax loss carryforwards		82	
Other – net	**248**	334	**2,234**
Less valuation allowance	**(245)**	(416)	**(2,207)**
Total	**1,080**	984	**9,730**
Deferred tax liabilities			
Reserve for special depreciation	**(15)**	(20)	**(135)**
Property, plant and equipment	**(15)**	(15)	**(135)**
Unrealized gain on available-for-sale securities	**(3)**	(24)	**(27)**
Other – net	**(18)**	(21)	**(163)**
Total	**(51)**	(80)	**(460)**
Net deferred tax assets (liabilities)	**¥ 1,029**	¥ 904	**$ 9,270**

A reconciliation between the normal effective statutory tax rate for the years ended December 31, 2018 and February 28, 2018, and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	December 31, 2018	February 28, 2018
Normal effective statutory tax rate	30.2%	30.2%
Unrealized profit on inventories	(5.2)	(1.7)
Effect of foreign tax rate differences	(4.5)	(3.7)
Undistributed earnings of associated companies	1.9	2.5
Tax credits for salary growth	(0.4)	
Valuation allowance	(0.2)	(20.6)
Other – net	(1.5)	1.0
Actual effective tax rate	20.3%	7.7%

New tax reform laws enacted in 2018 in Japan changed the corporate income tax rate from 30.0% to 29.9% for the fiscal year beginning on or after January 1, 2019. The impact of this change is insignificant.

14. Research and Development Costs

Research and development costs charged to income were ¥1,469 million ($13,234 thousand) and ¥1,994 million for the years ended December 31, 2018 and February 28, 2018, respectively.

15. Gain on Sale of Shares of Subsidiaries and Associates

Gain on sale of shares of subsidiaries and associates for the year ended December 31, 2018 resulted from transferring all shares of Star Micronics Precision (Thailand) Co., Ltd., a subsidiary of the Company.

16. Business Restructuring Expenses

Business restructuring expenses for the year ended December 31, 2018 were due to implementation of restructuring Star Micronics Manufacturing Dalian Co., Ltd., a subsidiary of the Company, and consist of special retirement expenses of ¥420 million ($3,784 thousand), impairment losses of ¥230 million ($2,072 thousand) and other expenses of ¥34 million ($306 thousand).

The impairment losses were for production facilities of Star Micronics Manufacturing Dalian Co., Ltd. and due to a decision to withdraw from its precision products business.

The recoverable amounts of these assets as of December 31, 2018 were measured at their net selling price determined by estimated amounts or zero.

17. 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, 2018 and February 28, 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Due within one year	¥ 84	¥100	$ 757
Due after one year	210	252	1,892
Total	¥294	¥352	$2,649

18. Financial Instruments and Related Disclosures

(1) Group Policy for Financial Instruments

The Group invests cash surpluses in low-risk financial instruments and raises funds by bank loans and convertible bonds. 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 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.

Loans and convertible bonds are used to finance operating activities, capital investment and purchase of treasury stock. Loans are exposed to risks of interest rate fluctuations, but all such loans are short-term borrowings.

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, loans and convertible bonds, 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, 2018	Carrying amount	Fair value	Unrealized gain/loss	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥20,853	¥20,853		$187,865	$187,865	
Marketable and investment securities	1,790	1,790		16,126	16,126	
Short-term investments	559	559		5,036	5,036	
Trade receivables	18,756	18,756		168,973	168,973	
Total	¥41,958	¥41,958		$378,000	$378,000	
Trade payables	¥10,432	¥10,432		$ 93,982	$ 93,982	
Short-term bank loans	2,500	2,500		22,523	22,523	
Convertible bonds	8,039	8,460	¥421	72,424	76,216	$3,792
Total	¥20,971	¥21,392	¥421	$188,929	$192,721	$3,792
Derivatives	¥ 110	¥ 110		$ 991	$ 991	

	Millions of yen		
February 28, 2018	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥21,957	¥21,957	
Marketable and investment securities	1,982	1,982	
Short-term investments	599	599	
Trade receivables	16,956	16,956	
Total	¥41,494	¥41,494	
Trade payables	¥10,312	¥10,312	
Short-term bank loans	2,500	2,500	
Convertible bonds	8,052	10,664	¥2,612
Total	¥20,864	¥23,476	¥2,612
Derivatives	¥ 105	¥ 105	

Cash and cash equivalents and short-term investments

The carrying values of cash and cash equivalents and short-term investments approximate fair value because of their short maturities.

Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market prices of the stock exchange for equity instruments, and at the quoted prices obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 4.

Trade receivables

The carrying values of receivables approximate fair value because of their short maturities. Further, the carrying values of receivables due in more than one year, arising from some overseas subsidiaries having installment sales, are measured in a rational manner, discounted at the Group's assumed corporate discount rate.

Trade payables and short-term bank loans

The carrying values of payables and short-term bank loans approximate fair value because of their short maturities.

Convertible bonds

The carrying values of convertible bonds are measured at the quoted price obtained from the financial institution.

Derivatives

Information on the fair value of derivatives is included in Note 19.

(b) Carrying Amount of Financial Instruments Whose Fair Value Cannot be Reliably Determined

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Investments in equity instruments that do not have a quoted market price in an active market	¥ 68	¥ 68	$ 613
Investments in unconsolidated subsidiaries and associated companies	285	291	2,567
Investments in limited partnerships	140	123	1,261
Total	¥493	¥482	$4,441

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

	Millions of yen			
December 31, 2018	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	¥20,853			
Marketable and investment securities	500	¥1,290	¥50	
Short-term investments	559			
Trade receivables	17,470	1,286		
Total	¥39,382	¥2,576	¥50	

	Millions of yen			
February 28, 2018	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	¥21,957			
Marketable and investment securities	1,000	¥ 788	¥25	
Short-term investments	599			
Trade receivables	15,726	1,224	6	
Total	¥39,282	¥2,012	¥31	

December 31, 2018	Thousands of U.S. dollars (Note 1) 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	$187,865			
Marketable and investment securities	4,505	$11,622	$450	
Short-term investments	5,036			
Trade receivables	157,387	11,586		
Total	$354,793	$23,208	$450	

19. Derivatives

Derivative transactions to which hedge accounting is not applied

	Millions of yen			
At December 31, 2018	Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Selling	¥5,876		¥ 70	¥ 70
Buying	1,871		40	40
Total	¥7,747		¥110	¥110

	Millions of yen			
At February 28, 2018	Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Selling	¥4,450		¥129	¥129
Buying	1,924		(24)	(24)
Total	¥6,374		¥105	¥105

	Thousands of U.S. dollars (Note 1)			
At December 31, 2018	Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Selling	$52,937		$631	$631
Buying	16,856		360	360
Total	$69,793		$991	$991

20. Other Comprehensive Income

The components of other comprehensive income for the years ended December 31, 2018 and February 28, 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2018	February 28, 2018	December 31, 2018
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥ (99)	¥ 36	$ (892)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(99)	36	(892)
Income tax effect	21	(11)	190
Total	¥ (78)	¥ 25	$ (702)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (907)	¥193	$ (8,171)
Reclassification adjustments to profit or loss	(242)	7	(2,180)
Total	¥(1,149)	¥200	$(10,351)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (453)	¥ 25	$ (4,081)
Reclassification adjustments to profit or loss	230	250	2,072
Amount before income tax effect	(223)	275	(2,009)
Income tax effect	65	165	585
Total	¥ (158)	¥440	$ (1,424)
Share of other comprehensive income in an associate:			
Gains (losses) arising during the year	¥ 0	¥ (10)	$ 0
Total	¥ 0	¥ (10)	$ 0
Total other comprehensive income	¥(1,385)	¥655	$(12,477)

21. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2018 and February 28, 2018, was 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, 2018				
Basic EPS				
Net income attributable to common shareholders	¥6,795	36,525	¥186.04	$1.68
Effect of dilutive securities				
Convertible bonds	(21)	4,728		
Stock acquisition rights		200		
Diluted EPS				
Net income for computation	¥6,774	41,453	¥163.42	$1.47
Year ended February 28, 2018				
Basic EPS				
Net income attributable to common shareholders	¥5,781	37,131	¥155.68	
Effect of dilutive securities				
Convertible bonds	(24)	4,720		
Stock acquisition rights		201		
Diluted EPS				
Net income for computation	¥5,757	42,052	¥136.90	

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 three reportable segments: "Special Products," "Machine Tools," and "Precision Products."

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

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

"Precision Products" produces and sells wristwatch parts, automotive parts, air conditioning parts, HDD parts, medical parts 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, 2018	Special Products	Machine Tools	Precision Products	Total	Reconciliations	Consolidated
Sales to external customers	¥12,652	¥49,338	¥3,950	¥65,940		¥65,940
Intersegment sales or transfers						
Total	12,652	49,338	3,950	65,940		65,940
Segment profit	¥ 2,266	¥ 9,390	¥ 322	¥11,978	¥ (2,266)	¥ 9,712
Segment assets	¥13,133	¥48,828	¥4,902	¥66,863	¥13,075	¥79,938
Other items:						
Depreciation	213	1,091	366	1,670	284	1,954
Investments in associates	282			282		282
Increase in property, plant and equipment and intangible assets	162	2,065	522	2,749	1,879	4,628

	Millions of yen					
	Reportable Segment					
February 28, 2018	Special Products	Machine Tools	Precision Products	Total	Reconciliations	Consolidated
Sales to external customers	¥12,306	¥44,342	¥4,125	¥60,773		¥60,773
Intersegment sales or transfers						
Total	12,306	44,342	4,125	60,773		60,773
Segment profit	¥ 1,627	¥ 7,027	¥ 255	¥ 8,909	¥ (2,699)	¥ 6,210
Segment assets	¥ 9,678	¥43,942	¥6,091	¥59,711	¥17,652	¥77,363
Other items:						
Depreciation	196	1,096	528	1,820	378	2,198
Investments in associates	287			287		287
Increase in property, plant and equipment and intangible assets	124	555	287	966	2,539	3,505

December 31, 2018	Thousands of U.S. dollars (Note 1) Reportable Segment Special Products	Machine Tools	Precision Products	Total	Reconcilia-tions	Consolidated
Sales to external customers	$113,982	$444,486	$35,586	$594,054		$594,054
Intersegment sales or transfers						
Total	113,982	444,486	35,586	594,054		594,054
Segment profit	$ 20,414	$ 84,595	$ 2,901	$107,910	$ (20,415)	$ 87,495
Segment assets	$118,315	$439,892	$44,162	$602,369	$117,793	$720,162
Other items:						
Depreciation	1,919	9,829	3,297	15,045	2,558	17,603
Investments in associates	2,541			2,541		2,541
Increase in property, plant and equipment and intangible assets	1,459	18,604	4,703	24,766	16,928	41,694

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. Matters relating to a change in reporting segments and other information

(Matters relating to a change in the consolidated account settlement date)

The Company and its consolidated subsidiaries in Japan changed their account settlement dates from the last day of February to December 31 each year and the consolidated account settlement date was changed from the last day of February to December 31 each year effective from the fiscal period under review as indicated in "2. Change in Consolidated Fiscal Year-End Date."

In accordance with this change, the account settlement period for the Company and its consolidated subsidiaries in Japan is the 10-month period from March 1, 2018 to December 31, 2018, and the 12-month period from January 1, 2018 to December 31, 2018 for overseas consolidated subsidiaries for the fiscal period under review. Turning to overseas consolidated subsidiaries and the period from January 1, 2018 to February 28, 2018, net sales amounted to ¥2,119 million ($19,090 thousand), ¥8,515 million ($76,712 thousand) and ¥385 million ($3,468 thousand) in the Special Products, Machine Tools and Precision Products segments, respectively. Segment profit came to ¥78 million ($703 thousand), ¥571 million ($5,144 thousand) and ¥0 million ($0 thousand) in the Special Products, Machine Tools and Precision Products segments, respectively.

Related Information

1. Related information by geographical area at December 31, 2018 and February 28, 2018, consisted of the following:

(1) Net Sales

December 31, 2018	Millions of yen Japan	USA	China	Germany	Others	Total
	¥9,372	¥16,631	¥10,359	¥8,941	¥20,637	¥65,940

February 28, 2018	Millions of yen Japan	USA	China	Germany	Others	Total
	¥10,205	¥14,636	¥8,841	¥7,323	¥19,768	¥60,773

December 31, 2018	Thousands of U.S. dollars (Note 1) Japan	USA	China	Germany	Others	Total
	$84,432	$149,829	$93,324	$80,550	$185,919	$594,054

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

(2) Property, Plant and Equipment

December 31, 2018	Millions of yen Japan	Thailand	China	Others	Total
	¥9,690	**¥2,663**	**¥2,133**	**¥1,035**	**¥15,521**

February 28, 2018	Millions of yen Japan	Thailand	China	Others	Total
	¥8,156	¥3,215	¥1,691	¥1,014	¥14,076

December 31, 2018	Thousands of U.S. dollars (Note 1) Japan	Thailand	China	Others	Total
	$87,297	**$23,991**	**$19,216**	**$9,325**	**$139,829**

2. Information for impairment loss of long-lived assets by reportable segments at December 31, 2018 and February 28, 2018, was as follows:

	Millions of yen					
	Reportable Segment					
December 31, 2018	Special Products	Machine Tools	Precision Products	Total	Eliminations or Corporate	Consolidated
		¥50	**¥353**	**¥403**		**¥403**

	Millions of yen					
	Reportable Segment					
February 28, 2018	Special Products	Machine Tools	Precision Products	Total	Eliminations or Corporate	Consolidated
			¥418	¥418	¥224	¥642

	Thousands of U.S. dollars (Note 1)					
	Reportable Segment					
December 31, 2018	Special Products	Machine Tools	Precision Products	Total	Eliminations or Corporate	Consolidated
		$451	**$3,180**	**$3,631**		**$3,631**

23. Related Party Disclosures

Transactions of the Company with related parties for the years ended December 31, 2018 and February 28, 2018, were as follows:

Year ended December 31, 2018

Not applicable

Year ended February 28, 2018

Related party	Category	Description of transaction	Millions of yen
Mamoru Sato	President and CEO	Exercise of stock options	¥12
Hiroshi Tanaka	Managing Director	Exercise of stock options	¥18
Simon Martin	Director of subsidiary	Exercise of stock options	¥10

24. Subsequent Events

a. Appropriation of Retained Earnings

The following appropriation of retained earnings at December 31, 2018, is to be approved at the Company's shareholders' meeting held on March 28, 2019:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥27 ($0.243) per share	**¥968**	**$8,721**

b. Reduction of Legal Capital Reserve

The Company, at its Board of Directors' meeting held on February 13, 2019, resolved to submit a proposal to reduce its legal capital reserve at the Company's shareholders' meeting held on March 28, 2019 and the resolution was approved at the meeting, as detailed below.

1. Purpose of the reduction of legal capital reserve

In accordance with Article 448, Paragraph 1 of the Companies Act, the Company will reduce a part of legal capital reserve and transfer the same amount to other capital surplus in order to provide for retirement of treasury stock and to maintain the mobility and flexibility of capital policy.

2. Outline of the reduction of legal capital reserve

(1) Amount of legal capital reserve to be reduced
Reduction of legal capital reserve by ¥10,000 million ($90,090 thousand) from ¥13,877 million ($125,018 thousand) to ¥3,877 million ($34,928 thousand).

(2) Method of reducing legal capital reserve
Reduce the amount of legal capital reserve and transfer the same amount to other capital surplus.

3. Schedule of the reduction of legal capital reserve

(1) Date of the Board of Directors' resolution:	February 13, 2019
(2) Date of the Company's shareholders' meeting:	March 28, 2019
(3) Date of announcement to creditors:	April 15, 2019
(4) Final date for submission of creditor objections:	May 15, 2019 (Planned)
(5) Effective date:	May 16, 2019 (Planned)

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Star Micronics Co., Ltd. and its consolidated subsidiaries as of December 31, 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Star Micronics Co., Ltd. and its consolidated subsidiaries as of December 31, 2018, and the consolidated results of their operations and their 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.

March 28, 2019 Deloitte Touche Tohmatsu LLC. Member of Deloitte Touche Tohmatsu Limited

STOCK INFORMATION

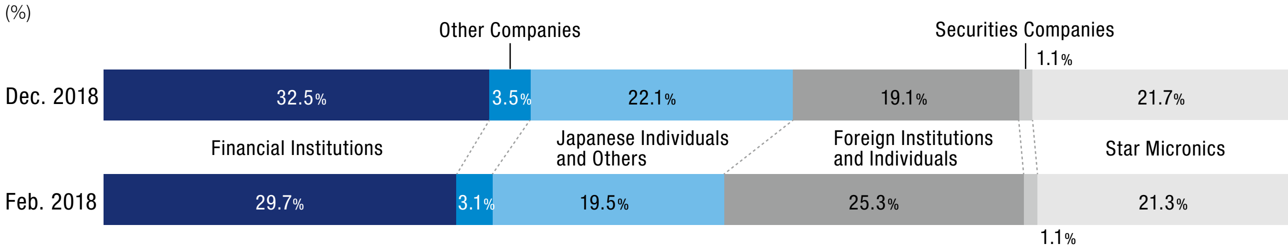
as of December 31, 2018

Common Stock	Authorized	158,000,000	**Stock Listing**	First Section of the Tokyo Stock Exchange
	Issued	45,772,234*	**Transfer Agent**	Mitsubishi UFJ Trust and Banking Corporation
Paid-in Capital		12,721,939,515 yen		1-4-5 Marunouchi, Chiyoda,
Number of Shareholders		10,441		Tokyo 100-8212, Japan

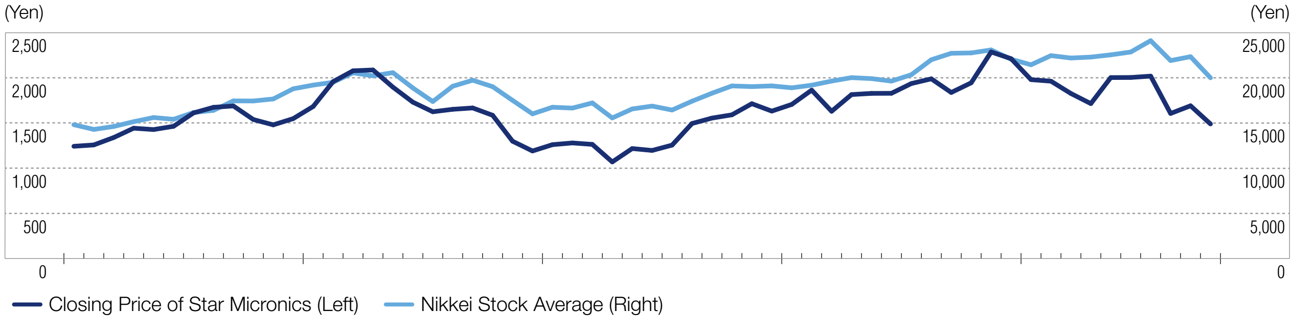
* The decrease in the number of shares issued was due to a retirement of 1,002,400 shares.

COMPOSITION OF SHAREHOLDERS

(%)

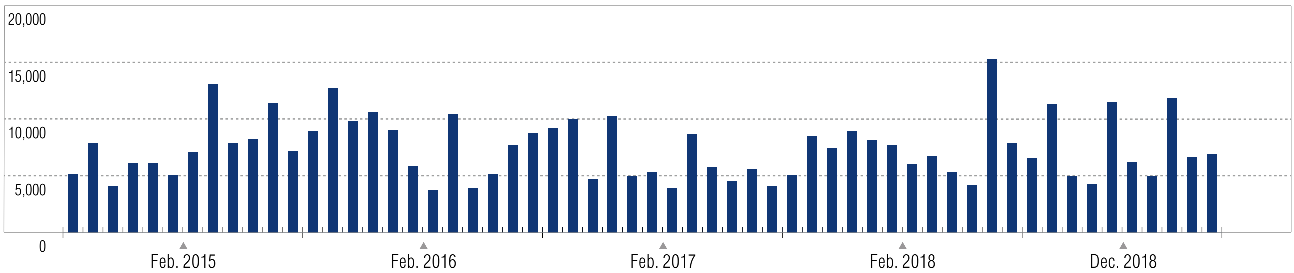


STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)



TRADING VOLUME

(Thousands of shares)



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	Feb. 2015	Feb. 2016	Feb. 2017	Feb. 2018	**Dec. 2018**
At year-end	1,550	1,192	1,633	2,213	**1,491**
High	1,885	2,238	1,770	2,480	**2,270**
Low	1,115	1,125	1,023	1,588	**1,332**

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