The World We Face

ANNUAL REPORT 2019 (PDF Version)

For the year ended December 31, 2019

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, comprising wristwatch 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 83% and a ratio of overseas production to all production of 80%.

Star Micronics celebrates its 70th anniversary in 2020. Working toward its next leap forward, the Company is leveraging its core technologies to promote a wide range of measures aimed at both creating new businesses 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 withdrawal from the European Union ■ Reduce costs by increasing supply chain efficiency	■ Increase mCollection™ brand sales while expanding and upgrading the product lineup in the mPOS market ■ Bolster the sales structure in Germany ■ Reorganizing systems with an eye toward strengthening supply chain management ■ Transfer production to Vietnam

Achievements and Challenges

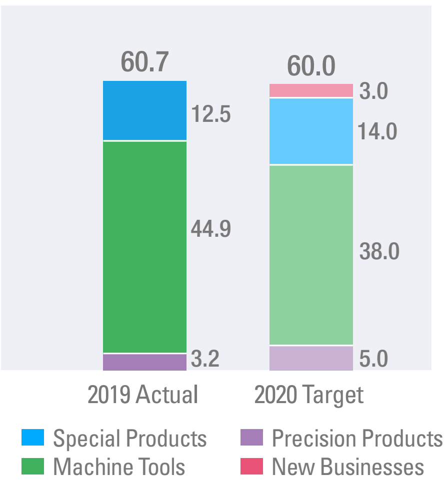
Strategies (Principal Initiatives)	Achievements and Challenges
Machine Tools ■ Release a series of fixed headstock automatic lathes ■ Develop IoT-related software ■ Shorten lead times and reduce inventories through modular design and production ■ Strengthen service systems in China	■ Promote the development of fixed headstock automatic lathes ■ Commenced sales of 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 ■ Strengthen before- and after-sales services using the Solution Center located at the Kikugawa Factory
Precision Products ■ Cultivate new customers and markets ■ Streamline production and promote automation ■ Increase operating rates utilizing IoT	■ Undertake an organizational restructure and withdraw from non-wristwatch component operations
New Businesses ■ M&A and business alliances, etc. ■ Vibration Power Generators ■ Cloud Services	■ Establish the New Business Planning Department ■ Consider new business and M&As through external collaboration ■ Withdraw from the vibration power generation business and review the cloud service business structure and systems

Performance Targets

Despite achieving the quantitative targets for both net sales and operating income in the previous fiscal year, fell short of the operating income target for the fiscal year under review due to such factors as the slowdown in the Machine Tools Segment.

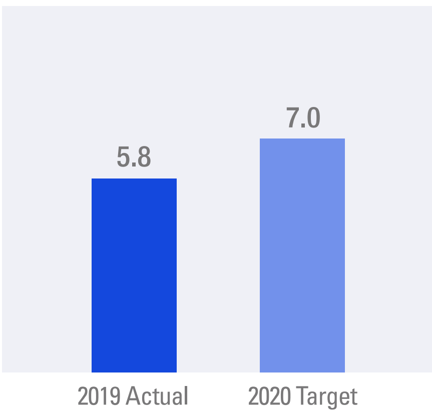
NET SALES

(Billions of yen)



OPERATING INCOME

(Billions of yen)



		2019 Actual	2020 Plan
Exchange Rate	US$	¥109.06	¥110.00
	EUR	¥122.08	¥115.00

Financial Targets

	2019 Actual	2020 Target
Net Sales	¥60.7 billion	¥60.0 billion
Operating Income	¥5.8 billion	¥7.0 billion
Operating Income Ratio	9.6%	11.7%
Return on Equity (ROE)	8.3%	12.0% or more

Returns to Shareholders

	2019 Actual	2020 Target
Total Payout Ratio	73.8%	50.0% or more
DOE	4.1%	4.5% or more
Dividends per Share	¥56	¥60

Financial Highlights

Financial Highlights | Related Information by Geographical Region

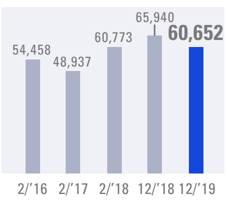
Star Micronics Co., Ltd. and Consolidated Subsidiaries

For the years ended February 2018 and December 2018, 2019

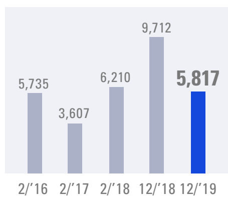
	Millions of yen			Thousands of U.S. dollars
	2/2018	12/2018	12/2019	12/2019
For the year :				
Net sales	¥60,773	¥65,940	¥60,652	$551,382
Operating income	6,210	9,712	5,817	52,882
Net income attributable to owners of the parent	5,781	6,795	4,054	36,855
Return on sales	9.5%	10.3%	6.7%	
Capital expenditures	3,505	4,628	3,067	27,882
Depreciation and amortization	2,198	1,954	2,419	21,991
At year-end :				
Total assets	77,363	79,935	76,394	694,491
Total equity	47,447	49,312	50,790	461,727
Equity ratio	60.1%	60.3%	65.2%	
	Yen			U.S. dollars
Per share :				
Basic net income	¥155.68	¥186.04	¥113.72	$1.03
Diluted net income	136.90	163.42	99.34	0.90
Cash dividends applicable to the year	52.00	54.00	56.00	0.51
Stock information :				
Common shares issued	46,774,634	45,772,234	45,091,334	
Number of shareholders	8,906	10,441	9,466	

Notes : 1. The rate of ¥110 to US$1, prevailing on December 31, 2019, 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.

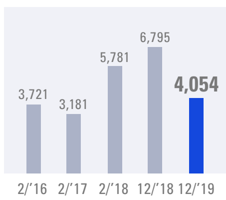
NET SALES
(Millions of yen)



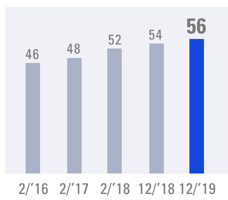
OPERATING INCOME
(Millions of yen)



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



CASH DIVIDENDS APPLICABLE TO THE YEAR
(Yen)



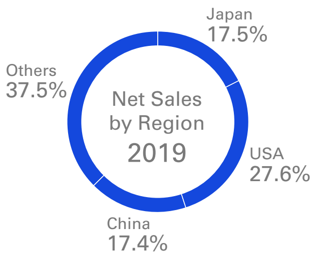
Related Information by Geographical Region

Star Micronics Co., Ltd. and Consolidated Subsidiaries
For the years ended February 2018 and December 2018, 2019

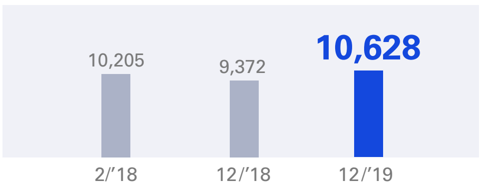
Net Sales by Geographical Region

	Millions of yen			Thousands of U.S. dollars
	2/2018	12/2018	12/2019	12/2019
Japan	¥10,205	¥9,372	¥10,628	$96,618
USA	14,636	16,631	16,718	151,982
China	8,841	10,359	10,558	95,982
Others	27,091	29,578	22,748	206,800
Total	60,773	65,940	60,652	551,382

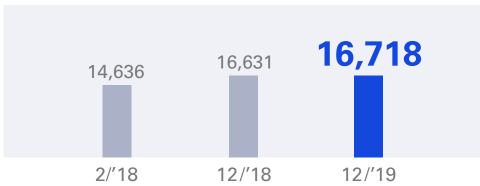
Notes : 1. The rate of ¥110 to US$1, prevailing on December 31, 2019, has been used for translation into U.S. dollar amounts.
2. The consolidated fiscal period for the fiscal period ended December 31, 2018 is based on and presented for a 10-month period for the Company and consolidated subsidiaries in 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.



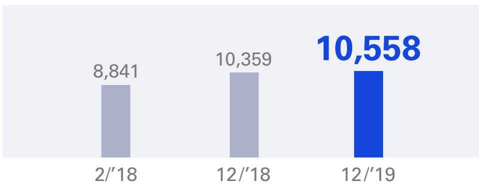
Japan
(Millions of yen)



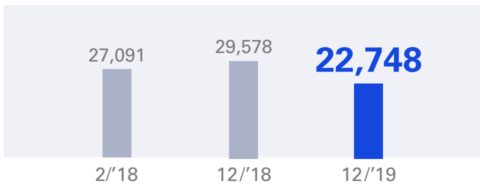
USA
(Millions of yen)



China
(Millions of yen)



Others
(Millions of yen)



To Our **Shareholders**

Star Micronics reported net sales of ¥60.7 billion in 2019. From a profit perspective, operating income came to ¥5.8 billion while net income attributable to owners of the parent amounted to ¥4.1 billion after posting business restructuring expenses related to the Precision Products Segment.

Buoyed by a robust Machine Tools Segment, both sales and profit increased in the fiscal period ended December 31, 2018. Despite extraordinary demand in the Special Products Segment prior to the consumption tax rate hike in Japan, revenue and earnings declined in the mainstay Machine Tools Segment in the year under review due to effects of trade friction between China and the U.S. and a slowdown in demand in Europe, which triggered a drop in sales in the mainstay Machine Tools Segment from the second half of 2019.

While economic conditions remain difficult, we anticipate fundamental demand will continue to expand. This largely reflects the spread of convenient services enabled by IoT growth, which is attracting worldwide interest. At the same time, the Company's Swiss-type automatic lathes are witnessing a solid stream of inquiries compared with large-scale machine tools. Based on the aforementioned, we can assure all shareholders that the recent downturn in operating results is far from a long-term trend.

With a full-fledged market recovery in mind, Star Micronics is taking all preparatory steps to increase the efficiency of its businesses. Our focus therefore is to put in place a product and service framework that best fits this IoT era. As a part of these endeavors, we plan to open a Solution Center in the Machine Tools Segment in July. We will also work diligently to strengthen before- and after-sales services.

Star Micronics celebrates its 70th anniversary in 2020. Guided by the overarching mission to generate the greatest impact from the least materials, the Company remains true to its founding goal of maximizing efficiency as well as added value. In April, we will unveil a new head office building. Looking ahead, we will embark on a new chapter of our history going forward.

March 2020

Mamoru Sato
Representative Director,
President and CEO

President’s Message

The World We Face

Challenges in Each Market

Mamoru Sato
Representative Director,
President and CEO

Extending well beyond the shores of each protagonist country, trade friction between the U.S. and China is having a major impact on the economies of Japan and Europe. Spurred by developments in the IoT and 5G fields, however, capital investment in the machine tools sector is projected to become increasingly active.

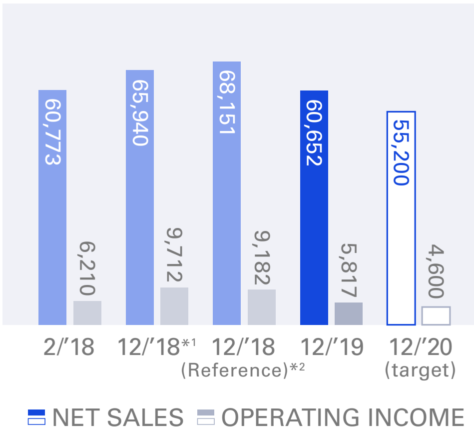
01 Operating results in 2019: Despite the effects of a harsh operating environment that exceeded expectations, difficult conditions are considered transient in nature.

In 2019, the Star Micronics Group reported net sales of ¥60,652 million. From a profit perspective, operating income came in at ¥5,817 million. Net income attributable to owners of the parent amounted to ¥4,054 million after posting business restructuring expenses related to the Precision Products Segment.*1

Despite accounting for the forecast effects of a harsh operating environment when formulating its business plan, Star Micronics was still forced to revise downward its projections on a further two separate occasions as 2019 progressed. This need to adjust its forecasts was largely triggered by unforeseen trends in the machine tool markets in both Europe and China. In Europe, the market was weak throughout the entire year, with demand for high-end models falling substantially. Despite robust trends up to the third quarter on the back of firm demand for communication-related products in China, sales declined dramatically thereafter as trade friction between the U.S. and China intensified.

Although the Company has continued to adopt a cautious approach toward its business plans for 2020, the effects of the harsh operating environment are expected to be transient. Taking into consideration ongoing developments throughout the IoT era, or so-called fourth industrial revolution, we anticipate demand for machine tools (automatic lathes) that contribute to plant automation will remain firm over the long term. Based on the aforementioned, we recognize the need to put in place a structure that is capable of swiftly addressing the pickup in demand as business conditions exhibit a positive turnaround.

NET SALES AND OPERATING INCOME
(Millions of yen)



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

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

02 The global market environment: Challenges for growth in each market

Looking at the global environment in which the Star Micronics Group's mainstay Machine Tools Segment operates, issues differ from market to market.

China

While China's economy continues to stall as the result of trade friction with the U.S., capital investment in communication-related fields is expected to remain high. Ideal for the manufacture of communications equipment-related precision products, sales of the Company's machine tools in China increased up to the third quarter. Thereafter, however, sales declined as adjustments were made to communications equipment-related production due to trade friction with the U.S. Taking into consideration the transient nature of production adjustments, and expectations that the introduction of 5G and other communications equipment will expand going forward, we are confident that sales will recover in the future.

Europe

Owing to a slump in the automobile industry, the European market was weaker than anticipated in 2019. In addition to the drop in automobile exports to China which held ramifications for component manufacturers, other issues also had a cumulative effect.

One such issue was the decision by the U.K. to withdraw from the European Union. Amid an ongoing sense of uncertainty, companies throughout Europe have found it difficult to engage vigorously in economic activities. Should progress be made with negotiations between the EU and trading nations, we anticipate corporate activity will gradually transition toward a recovery trend.

Another issue revolves around automobile emission standards that are scheduled to take effect in Europe from 2021. With automobile manufacturers only just now considering the design of models that conform to these standards, proactive steps to engage in capital investment are considered premature. In the future, however, we anticipate a marked pickup in automobile production in Europe as trends within the industry become clear.

The U.S.

In similar fashion to the previous fiscal year, sales in the U.S. were solid throughout 2019. With more than one-half of the Company's customer base in the U.S. coming from the medical equipment-related sector, results remained firm on the back of robust conditions in the healthcare industry as a whole. Unlike China and Europe, the U.S. automobile industry was also relatively strong. While the growing intensity of trade issues is expected to impact the market, we anticipate overall trends will be firm.

Japan

While the distinction between strong and weak industries in Japan remains clear, exports to China and Europe by the mainstay automobile sector were stagnant due to growing trade friction between the U.S. and China over the latter half of the year. Under these circumstances, automobile component manufacturers continue to adopt a cautious approach toward capital investment.

03 The current status of and outlook for the Special Products Segment: The mPOS market is projected to experience ongoing growth going forward.

Despite firm demand in the U.S., sales in the Special Products Segment were soft in the year under review. This was mainly due to the impact of inventory adjustments by sales agents. From a manufacturing perspective, steps are being taken to transfer the production of certain mainstay products from China to Vietnam. This is to address the risks imposed by trade friction between the U.S. and China. Given the potential to benefit from a lower cost structure, this partial transfer to Vietnam allows the Group to offset the effects of trade friction-related issues, while at the same time establishing a major production base that will help boost earnings in the Special Products Segment.

On the domestic front, the introduction of reduced tax rate-related subsidies for the replacement of equipment and facilities in October 2019 triggered a spike in extraordinary demand. While anticipating a correction next year, the mPOS market is still expected to experience a pickup in long-term demand. Coupled with the positive flow-on effects attributable to the Tokyo Olympic and Paralympic Games, cashless payment subsidies are also scheduled to continue through to the spring of 2020. Moreover, the substantial number of small- and medium-sized stores that are yet to address the trend toward cashless payment is projected to provide the potential for further growth.

Turning to the European Continent, governments are spearheading efforts to popularize POS devices at small- and medium-sized stores that are largely used to cash as a principal means of payment. As systems and subsidies take hold, we anticipate the mPOS market will expand even further.

04 Progress under the Medium-Term Management Plan: Preparations have been made to ensure growth.

While 2020 is the final year of its current Medium-Term Management Plan, Star Micronics is steadily advancing the preparatory measures required to ensure the next phase of growth.

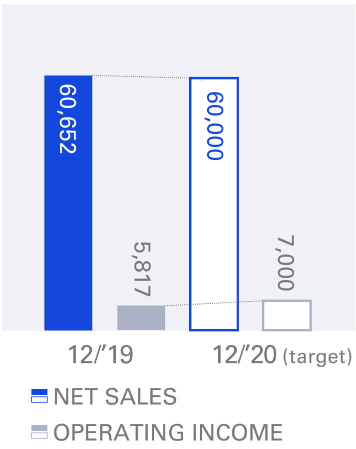
Moving forward, we are working to upgrade and expand our product lineup in the Machine Tools Segment as we enter the fixed headstock automatic lathe market. While initiating sales of operation monitoring systems, we are also promoting the further development of IoT-related software. From a production perspective, we remain focused on shortening lead times and reducing inventories through modular design and production. Looking ahead, we will strengthen before- and after-sales services through various measures. This includes expanding overseas sales bases while also utilizing the Solution Center, which is scheduled to open at the Kikugawa Factory in July. We are confident that this Center will help increase the satisfaction of user customers while raising the Company's profile.

In the Special Products Segment, we will continue to focus on the mPOS market by further upgrading and expanding high-value-added products. At the same time, we will pursue ongoing measures to reorganize sales bases in Europe. In an effort to complement these initiatives, we are working to strengthen supply chain management through such measures as the introduction of new systems.

Turning to the Precision Products Segment, we are in principle withdrawing from non-wristwatch component operations and focusing on the manufacture and sale of wristwatch components. In addition, we are looking to streamline our operating structure and systems in a bid to improve profitability through the reduction of fixed costs.

As far as the issue of creating and nurturing new business is concerned, we are considering new business opportunities and M&As through external collaboration. With the recently established New Business Planning Department playing a principal role, we are working to create new businesses.

MEDIUM-TERM TARGETS
(Millions of yen)



05 Outlook for the next year: Despite a harsh business environment, demand in the machine tools market in China is projected to remain firm.

The future of the global economy remains clouded due to uncertainty surrounding the impact of friction between the U.S. and China, trade negotiations associated with the U.K.'s withdrawal from the European Union, geopolitical risks associated with the Middle East, and other factors.

Under these circumstances, the Group's consolidated operating results in 2020 are expected to be mixed. Sales in the mainstay Machine Tools Segment are forecast to decline as customers continue to adopt a cautious approach toward capital investment in Japan, Europe, the U.S., and other markets. Despite corrections to the extraordinary demand that arose in the leadup to the consumption tax rate hike in Japan in 2019, sales in the Special Products Segment are anticipated to be firm in other regions. Turning to the Precision Products Segment, where the Company's efforts will focus largely on wristwatch components, sales are estimated to fall.

Accounting for each of the aforementioned factors, Star Micronics is expected to record a downturn in consolidated revenue and earnings in 2020. In specific terms, net sales are projected to decline 9.0% compared with the year under review, to ¥55,200 million. From a profit perspective, operating income is forecast to decrease 20.9%, to ¥4,600 million, and net income attributable to owners of the parent to drop 21.1%, to ¥3,200 million, on a consolidated basis.

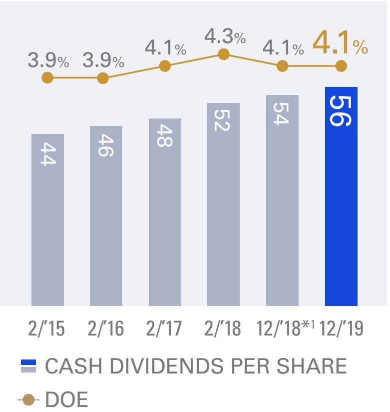
Given the difficulties in arriving at a proper estimation, the effects of the new coronavirus have not been factored into the aforementioned outlook.

06 Corporate governance and returns to shareholders

Star Micronics places considerable importance on a strong corporate governance function while ensuring the proper return of profits to shareholders. In this regard, outside directors already make up a majority of the Company's Board of Directors. From a shareholders' return perspective, Star Micronics' basic policy is to target a consolidated payout ratio of 50% or more while taking into consideration its consolidated dividend on equity (DOE).

In the year under review, the Company undertook the repurchase of its own shares at a total repurchase price of approximately ¥1 billion. Steps have also been taken to retire all of the shares repurchased. In addition, Star Micronics set its period-end dividend at ¥28 per share. Accounting for the interim dividend of ¥28 per share, this brings the annual dividend to ¥56 per share, up ¥2 per share compared with the previous fiscal year.

CASH DIVIDENDS PER SHARE AND DOE
(Yen, %)

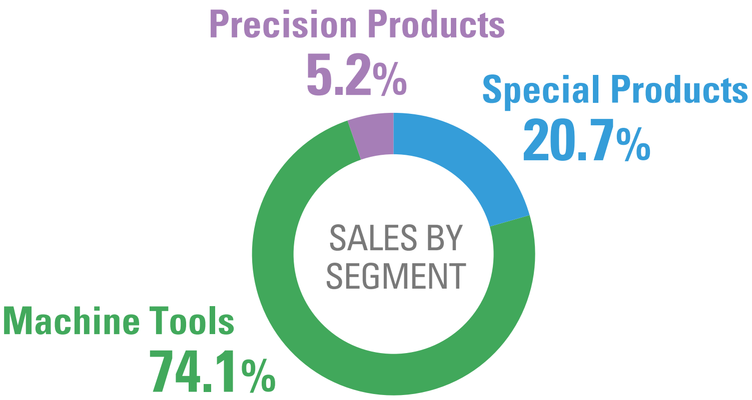


Turning to the payment of dividends for the next year, Star Micronics is looking to pay a commemorative dividend of ¥4 per share to celebrate its 70th anniversary in July 2020 to shareholders of record as of December 31, 2020. As a result, the annual dividend, which is projected to comprise a ¥28 per share interim dividend and a period-end dividend of ¥32 per share including the ¥4 per share commemorative dividend, will be ¥60 per share for 2020, a ¥4 per share increase compared with the year under review.

While maintaining its focus on actively reforming its business and management, Star Micronics will work in unison to enhance its corporate value.

As we work toward achieving our established goals, we kindly request your continued support and understanding.

At a Glance by Segment



Special Products

NET SALES

¥12,542 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. As a result, the Company has expanded its product lineup to not only include the principal printer unit, but also a wide range of mPOS peripheral devices.

▸ Special Products

Machine Tools

NET SALES

¥44,921 million

In the Machine Tools Segment, Star Micronics' Swiss-Type CNC Automatic Lathes enjoy a high market share worldwide. 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 and web-based application that optimizes and monitors machine operations, respectively.

▸ Machine Tools

Precision Products

NET SALES

¥3,189 million

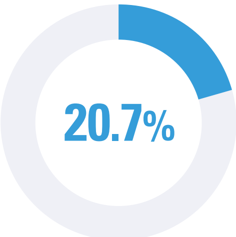
In the Precision Products Segment, a Star Micronics' foundation business, the Company boasts a leading share in the wristwatch component processing field in Japan.

▸ Precision Products

In 2019, sales of POS printers were strong owing to special demand from tax-mitigation subsidies in the Japanese market, while sales in the European and U.S. markets remained weak. In the Asian market, sales in China slumped but were solid in other regions. In 2020, we expect a drop off in demand from tax subsidies in Japan but solid sales in other regions.

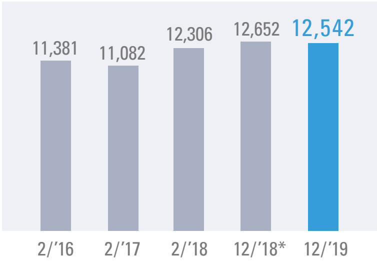
SPECIAL PRODUCTS

SALES BY SEGMENT



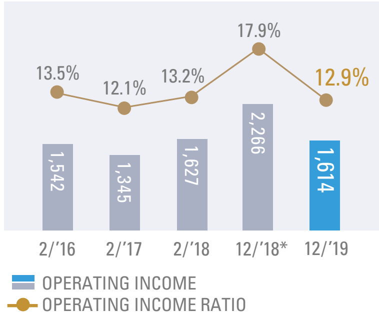
NET SALES

(Millions of yen)



OPERATING INCOME &
OPERATING INCOME RATIO

(Millions of yen, %)

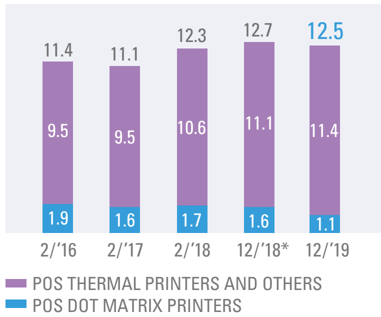


Business Environment and Results in 2019

In the Special Products Segment, Star Micronics is engaged in global sales of mainstay 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. Beyond printers, the Company has focused on sales of mCollection™ brand mPOS peripheral devices such as compact cashless drawers and telecommunication equipment.

SALES IN THE SPECIAL PRODUCTS SEGMENT

(Billions of yen)



In 2019, sales in the U.S. market were weak due to the impact of inventory adjustments at sales agents. Sales in Europe were low amid ongoing weak market conditions there. In the Asian market, demand slumped for dot matrix printers in China, but sales were solid in other regions. In the Japanese market, sales were strong amid special demand for tax subsidy-related applications. In addition, a wide variety of new mPOS peripheral devices were released in 2019 to meet higher demand in this area.

As a result, sales in the Special Products Segment were ¥12,542 million (US$114,018 thousand) and operating income was ¥1,614 million (US$14,673 thousand).

Outlook for 2020 and Business Strategies

In 2020, special demand related to tax subsidies is expected to drop off in the Japanese market, but sales are projected to remain solid in other regions. The Company will focus on boosting sales in the European and U.S. markets to offset lower sales in Japan. Apart from POS, we will address new demand for home delivery printers that are becoming popular in Europe. In the European market, we see demand growth from moves to popularize POS devices at retail outlets in Germany. In addition, we are working to increase sales by focusing on marketing printer peripheral devices.

In 2020, we forecast net sales are estimated to rise 0.1% year on year to ¥12,550 million and operating income to decrease 15.1% to ¥1,370 million.

Given the difficulties in arriving at a proper estimation, the effects of the new coronavirus have not been factored into the aforementioned outlook.

POS printer mC-Print3™

* 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)

	2018*	2019
The Americas	292	244
Europe	186	156
Asia	48	48
Japan	55	103
Total	581	551

Expanded Lineup of mPOS Peripheral Devices

Star Micronics has released mC-Sound™ and mC-Bridge™, new additions to the mCollection™ brand of peripheral devices for the mPOS market.

mC-Sound™ is an audible sound device capable of alerting staff of incoming orders while simultaneously printing out order slips. The product is the first in the industry able to control types and volume of sounds from a host device, and is equipped with functions that support the playback of received voice data to allow users to upload or record their own custom sound.

mC-Bridge™ is a device that can be installed in automatic change machines in iOS environments. Conventional automated change machines that use wired serial interfaces for transmissions are the norm, making them incompatible with iOS environments. However, mC-Bridge™ enables transmissions in iOS environments by switching over to LAN. This enables the smooth installation of automated change machines even at stores that use iOS tablets.

Looking ahead, we aim to further increase our share in the mPOS market by expanding our lineup of related products.

mC-Sound™

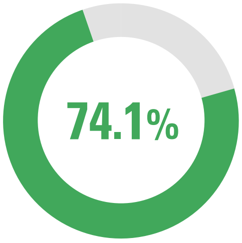
mC-Bridge™

Machine Tools

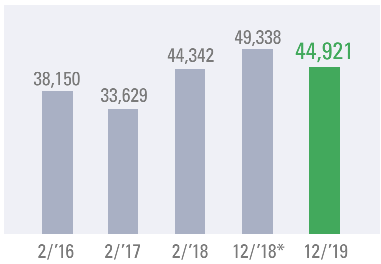
In 2019, sales were solid in the U.S. and China in the Asian market. In contrast, sales were weak in European and Japanese markets. In 2020, sales are expected to fall mainly in Japanese, European, and U.S. markets amid ongoing caution over capital expenditures.

MACHINE TOOLS

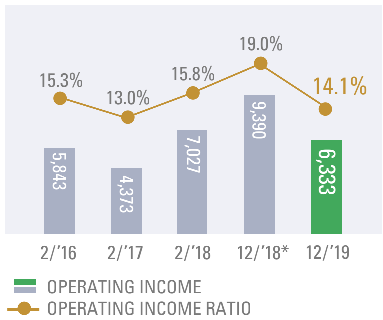
SALES BY SEGMENT



NET SALES
(Millions of yen)



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

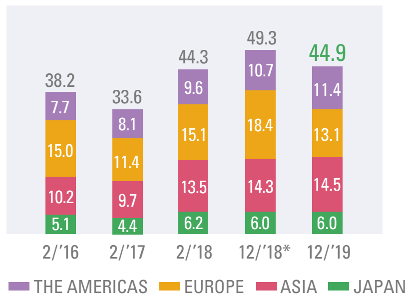


Business Environment and Results in 2019

In 2019, sales in the U.S. market remained solid mainly for medical applications. In the European market, sales were weak chiefly in Germany and the U.K. due to U.S.-China trade friction and the impact of Brexit. In addition, market conditions were weak mainly in German amid stagnant automotive capital expenditures. In the Asian market, growth was seen in China, medical- and telecommunication-related sales were solid, but sales in other regions were low. In the Japanese market, sales remained stagnant amid cautious capital expenditures in the mainstay automotive field.

As a result, Machine Tools Segment sales came to ¥44,921 million (US$408,373 thousand) and operating income was ¥6,333 million (US$57,573 thousand).

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



Outlook for 2020 and Business Strategies

CNC Swiss-Type Automatic Lathe SX-38 Type B

In 2020, uncertainties are expected to persist in such areas as U.S.-China trade friction, post-Brexit trade negotiations with the E.U., and geopolitical risks in the Middle East. Against this backdrop, sales are projected to decline in light of ongoing caution over capital expenditures in Japan, Europe, and the U.S. In the Asian market, we expect solid demand related to the telecommunication and medical sectors, capital expenditures for both of which are going into full swing in China.

While uncertainty will likely persist, the Company views this as an opportunity to leap further ahead and therefore will upgrade to a robust framework able to respond to demand generated by the 4th Industrial Revolution that is poised to expand over the medium- to long term. In addition to opening a solution center at the Kikugawa Factory in July 2020, we will enhance our overseas sales offices in order to strengthen our before/after sales services and, in turn, increase sales.

In 2020, we forecast net sales to fall 7.9% year on year to ¥41,350 million and operating income to drop 14.7% to ¥5,400 million.

Given the difficulties in arriving at a proper estimation, the effects of the new coronavirus have not been factored into the aforementioned outlook.

* 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.

Exhibit at EMO Hannover 2019

Star Micronics participated in the EMO Hannover 2019 world trade fair for machine tools and metalworking held in Hannover, Germany over six days in September 16-21, 2019. The world's largest expo of its kind, EMO Hannover 2019 attracted over 120,000 visitors from 150 countries.

The Star Micronics booth displayed four machines—SX-38, SV-20R, SW-12RII, and SR-20JII—attracting large crowds each day.

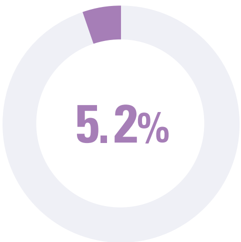
Of these machines, all eyes were on the new SX-38, a high-functioning, large-diameter model capable of front-/rear-side slant machining and features a gang-type tool post equipped with a swing-type milling unit. There are two different versions of turret-type tool post specifications: Type A, the quick-change version with the clamp mechanism that enables quick and easy attachment/detachment of the tool unit; and Type B, the version of a one-position tool driving that suppresses excessive vibrations and heat. In addition, this model employs the guide bush switching mechanism that can be freely switched on or off just like conventional models to flexibly meet the diversified needs of machining workpieces.

Star Micronics booth crowded with visitors

In 2019, sales were weak for both wristwatch components due to inventory adjustments at wristwatch makers and for non-wristwatch components mainly because of slumping demand in China and steps to reorganize overseas production. In 2020, sales are expected to decline amid progressive concentration towards wristwatch components.

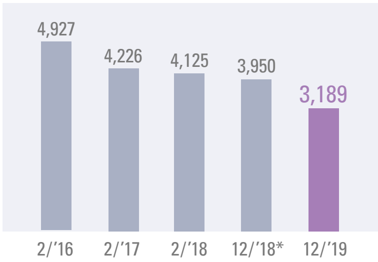
PRECISION PRODUCTS

SALES BY SEGMENT



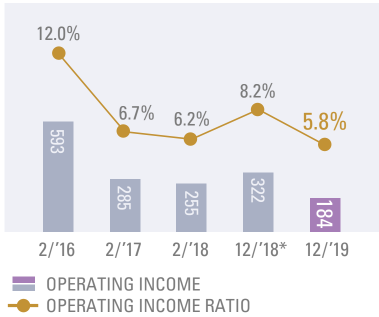
NET SALES

(Millions of yen)



OPERATING INCOME &
OPERATING INCOME RATIO

(Millions of yen, %)



Business Environment and Results in 2019

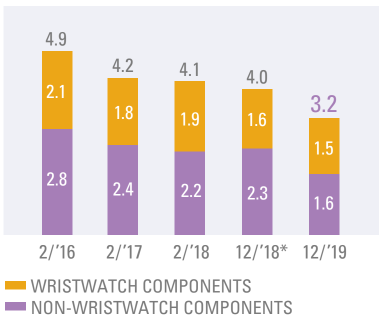
The products in the Precision Products Segment are divided into two main areas: wristwatch components, a business that the Company has been involved in since it was founded, and other precision components (non-wristwatch components) such as automotive-, medical- and air conditioner-related components.

Sales of wristwatch components were ¥1,539 million (US$13,991 thousand), with sales remaining low due to inventory adjustments at wristwatch makers. Sales of non-wristwatch components amounted to ¥1,649 million (US$14,991 thousand), reflecting lower demand in China and the impact of reorganizing overseas production facilities following the dissolution of Shanghai S&E Precision Co., Ltd. at the end of December 2019.

As a result, Precision Products Segment sales totaled ¥3,189 million (US$28,991 thousand) and operating income was ¥184 million (US$1,672 thousand).

PRECISION PRODUCTS
SEGMENT SALES

(Billions of yen)



Outlook for 2020 and Business Strategies

In 2020, segment-wide net sales and operating income are expected to decline due to basically withdrawing from non-wristwatch components to focus on the manufacture and sale of wristwatch components.

The Precision Products Segment has progressively reorganized operations at overseas manufacturing subsidiaries since 2018 and will basically cease producing and selling non-wristwatch components in March 2020. We will discontinue the Precision Products Division and instead concentrate the segment's wristwatch component production and sales into the Company's wholly owned subsidiary Micro Sapporo Co., Ltd. In so doing, we are working to improve profitability by focusing on wristwatch component production/sales and cutting fixed costs by streamlining operations.

The decision to revamp this unit was prompted by requests for more staff from the Machine Tools Segment, where demand for after-sales services is rising. We will boost profitability further by reassigning Precision Products Segment employees who are well versed in Star Micronics machine tools to the profitable Machine Tools Segment while pursuing streamlining.


Wristwatch Components

In 2020, we forecast net sales to decrease 59.2% year on year to ¥1,300 million and operating income to fall 56.6% to ¥80 million.

Given the difficulties in arriving at a proper estimation, the effects of the new coronavirus have not been factored into the aforementioned outlook.

* 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.

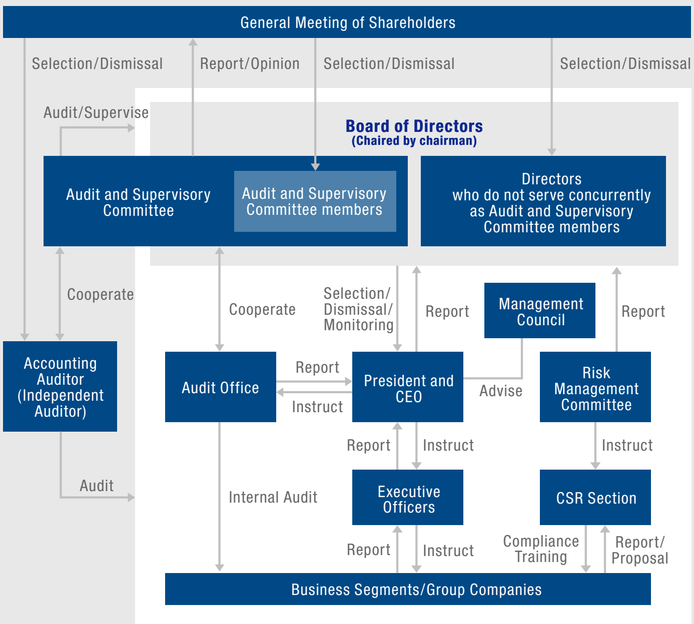
The Company has decided to set the number of internal directors including the president at three and to appoint four outside directors including directors who serve as Audit and Supervisory Committee members. In this manner, outside directors make up a majority of the Board of Directors. Based on each 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 26, 2020.

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
		Fixed compensation	Performance-based compensation		
		Basic compensation	Stock options	Bonus	
Directors (excluding Audit and Supervisory Committee members) (excluding outside directors)	231	135	56	40	3
Audit and Supervisory Committee members (excluding outside directors)	—	—	—	—	—
Outside directors and Audit and Supervisory Committee members	25	25	—	—	4

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.

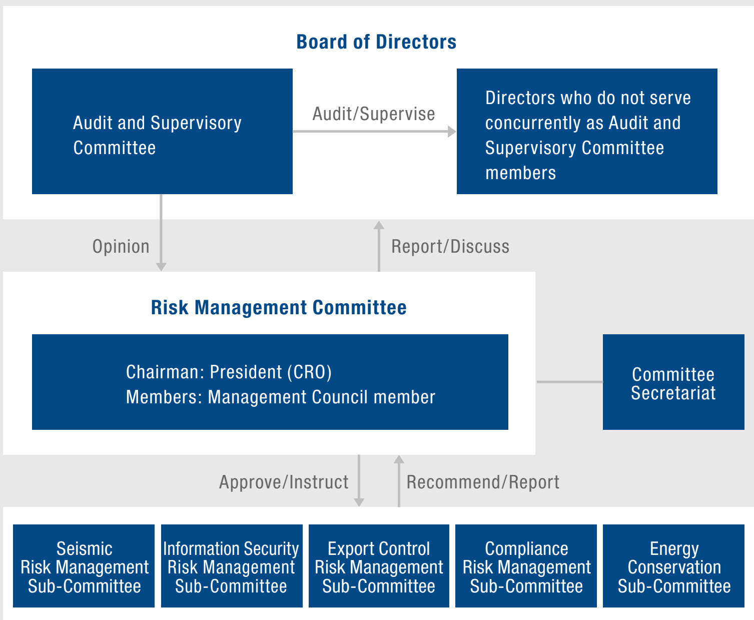
Internal Control System

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. 2019	Dec. 2018	Feb. 2018
For the year:			
Net sales	**¥60,652**	¥65,940	¥60,773
Cost of sales	**38,330**	40,478	38,511
Selling, general and administrative expenses	**16,505**	15,750	16,052
Operating income (loss)	**5,817**	9,712	6,210
Other income (expenses) – net	**(485)**	(1,029)	149
Income (loss) before income taxes	**5,332**	8,683	6,359
Income taxes	**1,486**	1,764	487
Net (loss) income attributable to noncontrolling interests	**(208)**	124	91
Net income (loss) attributable to owners of the parent	**4,054**	6,795	5,781
Net cash provided by operating activities	**5,124**	6,089	8,923
Net cash (used in) provided by investing activities	**(3,150)**	(2,950)	(5,013)
Free cash flows	**1,974**	3,139	3,910
Net cash (used in) provided by financing activities	**(3,015)**	(3,766)	(2,926)
Per share:			
Basic net income (loss)	**¥113.72**	¥186.04	¥155.68
Diluted net income	**99.34**	163.42	136.90
Cash dividends applicable to the year	**56.00**	54.00	52.00
At year-end:			
Current assets	**¥56,830**	¥59,914	¥59,635
Net property, plant and equipment	**15,542**	15,521	14,076
Total assets	**76,394**	79,935	77,363
Long-term liabilities	**9,675**	10,046	9,697
Total equity	**50,790**	49,312	47,447
Stock exchange price per share of common stock:			
Highest	**¥1,893**	¥2,270	¥2,480
Lowest	**1,258**	1,332	1,588
Selected financial indicators:			
Equity ratio (%)	**65.2**	60.3	60.1
Return on equity (%)	**8.3**	14.3	12.9
Dividend payout ratio (%)	**49.2**	29.0	33.4
Dividend on equity (%)	**4.1**	4.1	4.3

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

Millions of yen (Except for per share data)

	Feb. 2017	Feb. 2016	Feb. 2015	Feb. 2014	Feb. 2013	Feb. 2012	Feb. 2011	Feb. 2010
	¥48,937	¥54,458	¥50,958	¥43,482	¥37,858	¥41,654	¥35,718	¥ 29,181
	30,825	33,558	31,355	28,047	24,683	25,753	23,265	22,326
	14,505	15,165	14,126	12,829	11,595	11,948	11,024	10,840
	3,607	5,735	5,477	2,606	1,580	3,953	1,429	(3,985)
	224	(383)	605	40	2,140	(724)	(1,069)	(2,665)
	3,831	5,352	6,082	2,646	3,720	3,229	360	(6,650)
	572	1,530	1,285	1,400	1,330	717	107	1,800
	78	101	101	103	90	85	92	105
	3,181	3,721	4,696	1,143	2,300	2,427	161	(8,555)
	5,338	3,107	4,326	2,597	483	4,466	3,520	4,769
	813	(1,074)	(2,501)	(2,455)	(1,908)	(393)	(1,518)	(1,194)
	6,151	2,033	1,825	142	(1,425)	4,073	2,002	3,575
	139	(2,180)	(1,568)	(1,394)	(1,202)	(2,092)	(1,813)	(3,977)
	¥ 81.77	¥ 87.98	¥111.36	¥ 27.17	¥ 54.66	¥ 56.94	¥ 3.71	¥(187.95)
	74.69	87.69	111.05	27.14				
	48.00	46.00	44.00	34.00	30.00	26.00	22.00	22.00
	¥53,172	¥50,367	¥50,533	¥41,233	¥35,827	¥38,302	¥34,836	¥ 34,346
	12,926	14,360	15,309	14,327	13,476	10,289	10,549	11,678
	68,351	67,828	70,261	59,303	52,564	51,925	49,250	50,681
	9,935	2,021	617	524	303	407	423	592
	43,755	50,200	51,903	45,698	40,710	36,980	37,096	41,261
		Yen						
	¥1,770	¥2,238	¥1,885	¥1,422	¥988	¥958	¥1,182	¥1,020
	1,023	1,125	1,115	857	647	657	702	595
	62.8	72.7	72.4	75.5	76.1	70.2	73.9	80.1
	6.9	7.4	9.8	2.7	6.0	6.7	0.4	
	58.7	52.3	39.5	125.1	54.9	45.7	593.0	
	4.1	3.9	3.9	3.4	3.3	3.0	2.5	2.2

Management's Discussion and Analysis

OVERVIEW (Years ended December 31, 2019 and 2018)

Business Environment

Looking at economic conditions during 2019, the U.S. economy exhibited a modest expansionary trend. In Europe, on the other hand, economic conditions were weak mainly across such major countries as Germany and the U.K. In Asia, China's economy continued to follow a path of slow deceleration. In other Asian regions except for China, economic trends were also generally weak. In Japan, economic trends were firm, despite signs of weakness in certain sectors.

Net Sales

(Millions of yen)

	2018	2019
	¥65,940	**¥60,652**

Demand in the Company-related machine tools markets overseas and in Japan remained firm in the first half, but showed signs of slowing thereafter. In the POS-related market in the Special Products Segment, demand in Japan was firm on the back of last-minute demand in the leadup to the consumption tax rate hike. However, consumer sentiment stalled in overseas markets, particularly in Europe. In precision products-related markets, trends in demand were sluggish for both wrist-watch and non-wristwatch components.

Operating Income

(Millions of yen)

	2018	2019
	¥9,712	**¥5,817**

Operating income came in at ¥5,817 million owing mainly to the downturn in sales.

Net Income Attributable to Owners of the Parent

(Millions of yen)

	2018	2019
	¥6,795	**¥4,054**

Net income attributable to owners of the parent amounted to ¥4,054 million after posting business restructuring expenses related to the Precision Products Segment.

Cash Dividends per Share

(Yen)

	2018	2019
	¥54	**¥56**

The annual cash dividend for the year under review increased ¥2 per share compared with the previous fiscal term, to ¥56 per share.

Total Assets

(Millions of yen)

	2018	2019
	¥79,935	**¥76,394**

Despite an increase in inventories, total assets as of the end of the year under review declined compared with the end of the previous fiscal period. This was mainly due to the decrease in trade notes and accounts receivable as well as cash and deposits.

Free Cash Flows

(Millions of yen)

	2018	2019
	¥3,139	**¥1,974**

Free cash flows came in at ¥1,974 million. This was mainly due to the decline in net income.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

(Millions of yen)

	2018	2019
	¥4,628	**¥3,067**

Capital expenditures amounted to ¥3,067 million. This largely reflected expenses relating to the introduction of production equipment in the Machine Tools Segment and the construction of the Solution Center.

Net Sales by Region

(Millions of yen)

	2018	2019
Japan	¥ 9,372	**¥10,628**
USA	16,631	**16,718**
China	10,359	**10,558**
Others	29,578	**22,748**

* 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

Star Micronics changed its account settlement period effective from the fiscal period ended December 31, 2018. As a result, consolidated financial results for the previous fiscal period were 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 conventional account settlement date is December 31. Taking the aforementioned into account, year-on-year percentage change data between the fiscal period ended December 31, 2018 and the year ended December 31, 2019 is not provided.

Machine tools market slowdown in Europe and Japan

In 2019, Star Micronics reported consolidated net sales of ¥60,652 million (US$551,382 thousand). Looking at economic conditions during 2019, the U.S. economy exhibited a modest expansionary trend. In Europe, on the other hand, economic conditions were weak mainly across such major countries as Germany and the U.K. In Asia, China's economy continued to follow a path of slow deceleration. In other Asian regions except for China, economic trends were also generally weak. In Japan, economic trends were firm, despite signs of weakness in certain sectors. Under these circumstances, demand in the Company-related machine tools markets overseas and in Japan remained firm in the first half, but showed signs of slowing thereafter. In the POS-related market in the Special Products Segment, demand in Japan was firm on the back of last-minute demand in the leadup to the consumption tax rate hike. However, consumer sentiment stalled in overseas markets, particularly in Europe. In precision products-related markets, trends in demand were sluggish for both wristwatch and non-wristwatch components.

The cost of sales came to ¥38,330 million (US$348,455 thousand). On this basis, gross profit amounted to ¥22,322 million (US$202,927 thousand).

Selling, general and administrative (SG&A) expenses were ¥16,505 million (US$150,045 thousand).

Taking into account each of the aforementioned factors, operating income totaled ¥5,817 million (US$52,882 thousand) on an operating income ratio of 9.6%.

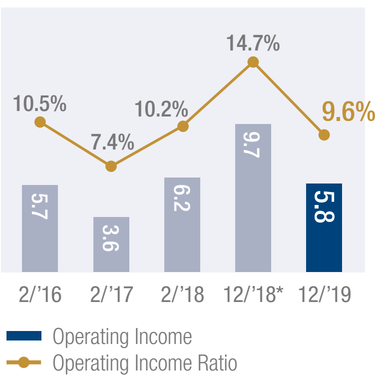
Other income and expenses improved on a net basis

In 2019, Star Micronics reported other expenses – net of ¥485 million (US$4,409 thousand). This largely reflected the posting of business restructuring expenses related to the Precision Products Segment to the tune of ¥689 million (US$6,264 thousand).

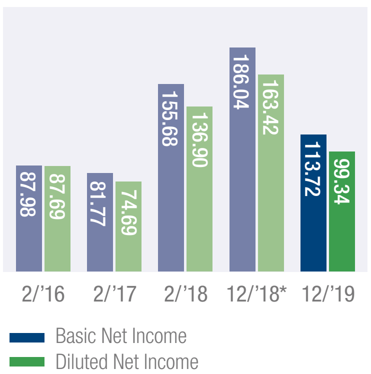
As a result, income before income taxes amounted to ¥5,332 million (US$48,473 thousand). Net income attributable to owners of the parent came to ¥4,054 million (US$36,855 thousand) after deducting income taxes and the net loss attributable to noncontrolling interests.

Basic net income per share was ¥113.72 (US$1.03) and diluted net income per share was ¥99.34 (US$0.90).

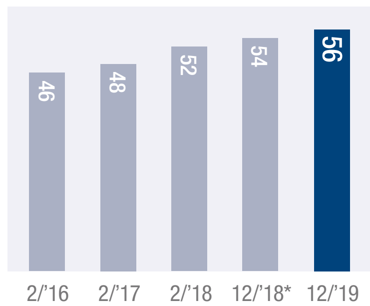
Operating Income and Operating Income Ratio
(Billions of yen, %)



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 for a ninth consecutive year climbing ¥2 per share year on year, to ¥56 per share

The annual cash dividend for 2019 increased for a ninth consecutive year climbing ¥2 per share year on year, to ¥56 per share (US$0.51). The dividend on equity (DOE) came in at 4.1%, roughly in line with the previous fiscal period. In the year under review, Star Micronics also undertook the repurchase of its own shares totaling ¥1,001 million (US$9,100 thousand). For the next year ending December 31, 2020, the Company is looking to pay a commemorative cash dividend of ¥4 per share to shareholders of record as of December 31, 2020 to celebrate its 70th anniversary, which falls in July 2020. In specific terms, plans are in place to pay an interim dividend of ¥28 per share and a year-end cash dividend of ¥32 per share, which includes the aforementioned commemorative cash dividend. This will bring the annual cash dividend to ¥60 per share, an increase of ¥4 per share compared with the year under review.

As far as its policy toward the payment of future dividends is concerned, Star Micronics 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

Overall decrease in total assets due to a downturn in the pace of market growth

Total current assets as of December 31, 2019 stood at ¥56,830 million (US$516,636 thousand), a decrease of 5.1%, or ¥3,084 million compared with the end of the previous fiscal period. While the balance of inventories climbed 13.2%, or ¥2,356 million, compared with the previous fiscal period-end, to ¥20,139 million (US$183,082 thousand), the decrease in current assets largely reflected lower balances of trade notes and accounts receivable, which declined 22.4%, or ¥4,143 million, to ¥14,324 million (US$130,218 thousand), and cash and cash equivalents, which decreased 5.0%, or ¥1,046 million, to ¥19,807 million (US$180,064 thousand).

Net property, plant and equipment edged up 0.1%, or ¥21 million, compared with the end of the previous fiscal period, to ¥15,542 million (US$141,291 thousand). This was mainly due to the increase in construction in progress, which came to ¥508 million (US$4,618 thousand) in line with work undertaken on the Solution Center.

The balance of investments and other assets fell 10.6%, or ¥478 million, year on year, to ¥4,022 million (US$36,564 thousand). While the balance of investment securities increased 31.9%, or ¥477 million, to ¥1,974 million (US$17,945 thousand), this was more than offset by the decrease in deferred tax assets, which fell 38.1%, or ¥568 million, to ¥923 million (US$8,391 thousand).

Accounting for each of the aforementioned factors, the balance of total assets contracted 4.4%, or ¥3,541 million, compared with the previous fiscal period-end, to ¥76,394 million (US$694,491 thousand).

Decreases in the balances of payables and liability for retirement benefits

Total current liabilities declined 22.6%, or ¥4,648 million, compared with the end of the previous fiscal period, to ¥15,929 million (US$144,809 thousand). This decrease was largely attributable to the downturn in payables of 29.6%, or ¥4,162 million, to ¥9,890 million (US$89,909 thousand).

Total long-term liabilities stood at ¥9,675 million (US$87,955 thousand) as of December 31, 2019. This was 3.7%, ¥371 million, lower than the balance as of December 31, 2018. This principal movement in long-term liabilities was a drop of 47.3%, or ¥829 million, to ¥923 million (US$8,391 thousand) in the balance of liability for retirement benefits.

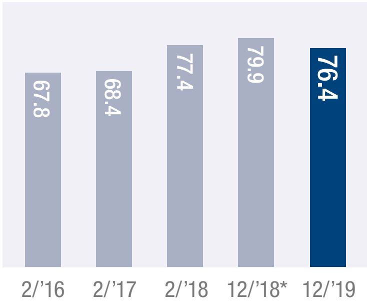
Increase in equity through the accumulation of retained earnings

Total equity increased 3.0%, or ¥1,478 million, compared with the end of the previous fiscal period, to ¥50,790 million (US$461,727 thousand). The leading factor behind this increase was the upswing in retained earnings of 5.7%, or ¥2,080 million, year on year, to ¥38,541 million (US$350,373 thousand). In contrast, the balance of capital surplus declined 6.0%, or ¥827 million, compared with the previous fiscal period-end, to ¥13,050 million (US$118,636 thousand) owing mainly to the purchase and retirement of treasury stock.

Owing to the increase in total equity, the equity ratio came in at 65.2% as of December 31, 2019, up 4.9 percentage points compared with the end of the previous fiscal period. Equity per share as of the end of the year under review climbed ¥68.42 year on year, to ¥1,413.50 (US$12.85).

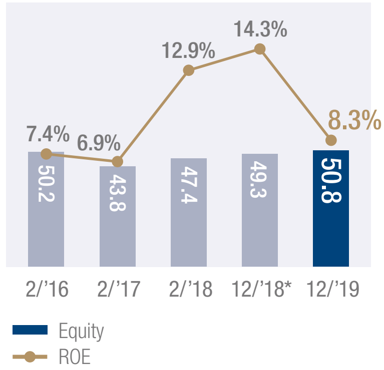
Total Assets

(Billions of yen)



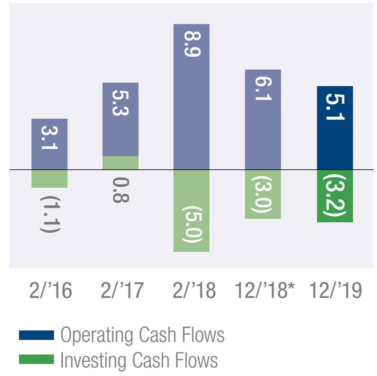
Equity and Return on Equity

(Billions of yen, %)



Cash Flows

(Billions of yen)



CASH FLOWS

Despite a downturn in free cash flow, continued to expand capital expenditures and returns to shareholders

Net cash provided by operating activities came to ¥5,124 million (US$46,582 thousand). The principal cash inflows came from income before income taxes of ¥5,332 million (US$48,473 thousand), depreciation and amortization of ¥2,419 million (US$21,991 thousand), and a decrease in trade receivables of ¥4,134 million (US$37,582 thousand), which more than offset such cash outflows as the decrease in trade payables of ¥3,163 million (US$28,755 thousand), increase in inventories of ¥2,396 million (US$21,782 thousand), and income taxes – paid of ¥1,748 million (US$15,891 thousand).

Net cash used in investing activities totaled ¥3,150 million (US$28,636 thousand). The major cash outflows were due to purchases of property, plant and equipment of ¥3,575 million (US$32,500 thousand) and purchases of marketable and investment securities of ¥853 million (US$7,754 thousand).

Net cash used in financing activities amounted to ¥3,015 million (US$27,409 thousand). This largely reflected dividends paid of ¥1,975 million (US$17,955 thousand) and payments for purchase of treasury stock totaling ¥1,001 million (US$9,100 thousand).

Taking into account each of the aforementioned activities as well as negative foreign currency translation adjustments on cash and cash equivalents of ¥5 million (US$46 thousand) and the net decrease in cash and cash equivalents of ¥1,046 million (US$9,509 thousand), cash and cash equivalents stood at ¥19,807 million (US$180,064 thousand) as of December 31, 2019.

CAPITAL EXPENDITURES AND R&D EXPENSES

Investment in the Machine Tools Solution Center in 2019 and 2020

In 2019, capital expenditures came to ¥3,067 million (US$27,882 thousand). In 2020, Star Micronics plans to undertake capital expenditures of ¥2,983 million focusing mainly on the Solution Center at the Company's Kikugawa Factory in the Machine Tools Segment and production facilities.

Special Products—Capital expenditures in the Special Products Segment increased ¥172 million compared with the previous fiscal period, to ¥334 million (US$3,037 thousand), in 2019. In 2020, the Company is budgeting expenditures of ¥152 million in this segment mostly for molds used in the manufacture of new products.

Machine Tools—Capital expenditures in the Machine Tools Segment climbed ¥225 million compared with the previous fiscal period, to ¥2,290 million (US$20,818 thousand), in 2019. In 2020, the Company is looking to undertake expenditures to the amount of ¥2,456 million in connection with construction of the Solution Center and in other areas including equipment and facilities used in renewal and maintenance work.

Precision Products—Capital expenditures in the Precision Products Segment came to ¥89 million (US$809 thousand), down ¥433 million compared with the previous fiscal period, in 2019. In 2020, the Company expects to spend ¥21 million, mostly for equipment and facilities used in renewal and maintenance work.

New product development at the R&D Center and in each business segment

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

R&D Center—Based at the Company's Tokyo Office, the R&D Center worked diligently to gather information focusing mainly on the IoT- and AI-related fields. At the same time, the Center considered the possible introduction of technology support systems in collaboration with related companies with a view to efficient use of in-house big data to help business divisions.

Meanwhile, steps have been taken to dissolve the R&D Center as of the end of 2019. The Star Micronics Group will continue to provide technology support to its business divisions and consider new businesses through a newly established department in the Machine Tools Segment.

Special Products Segment—Star Micronics developed SteadyLAN™ for its mC-Print series of POS thermal printers in 2019. SteadyLAN™ is a solution software that enables use of the Internet from an iPad without Wi-Fi communication when undertaking wired connection to local networks, printers and iPads. In an environment where wireless communication is uncertain, this new development of SteadyLAN™ printer software also greatly enhances the stability of POS and mobile ordering applications.

In addition, the Company developed and commenced sales of mC-Bridge™, hardware that enables iPads to be linked with automatic change machines. Automatic change machines that only allow communication through serial interface make up the majority of existing models. This created a problem for iPads that were not equipped with serial interface capabilities. Star Micronics' mC-Bridge™ resolves this issue. By converting the mode of communication to a network basis, mC-Bridge™ allows all iPads to be linked to automatic change machines. Moreover, successful steps have been taken to reduce the time required to develop automatic change machine control applications using the Company's proprietary SDK connection development kit, and to quickly address issues when a failure occurs through a function that automatically records communication logs on iPads.

Machine Tools Segment—During 2019, Star Micronics developed SB-16III, a new member of the mid-range "SB Series" of popular models capable of machining workpieces with a maximum diameter of 16-mm. Aiming to serve machining of workpieces for the automotive, information communication, and other devices mainly in the Japanese and Asian markets, this model was designed to reduce the footprint of the machine with selected functionalities of the current models: SB-12R/16R/20R.

Moreover, Star Micronics developed SX-38, a new high-end, high-functioning combination lathe model capable of machining workpieces with a maximum diameter of 38-mm. As a successor model of SV-38R, the current high-functioning model for large-diameter machining, this model comes in two different versions of turret-type tool post specifications with the aim of serving the manufacturing industries including medical, automotive, and aviation-related devices. Type A, the quick-change version with the clamp mechanism which enables quick and easy attachment/detachment of the tool unit; and Type B, the version of one-position tool driving. With the Type A version, the existing power tool unit can be used. With the Type B version, the one-position tool driving system suppresses excessive vibrations and heat to ensure continuous operation with more stable accuracy. The design focuses on improving the rigidity of the entire machine by adopting a slide guideway surface for the Z-axis guide when using the turret-type tool post, back machining tool post, and non-guide bush specifications, and by increasing the thickness of the legs that serve as the base of the machine. Furthermore, the arrangement of tool posts mounted on the machine in the tilted state shortened the distances from the machine front side to the spindles and the tool posts, and improved operability and workability for the operator.

For the continuously growing China market, Star Micronics added specifications to the best selling "SB-20R type G" model that enable it to machine materials of 25-mm in diameter and launched sales of "typeEN," a non-guide bush type developed for the SB-20J Series.

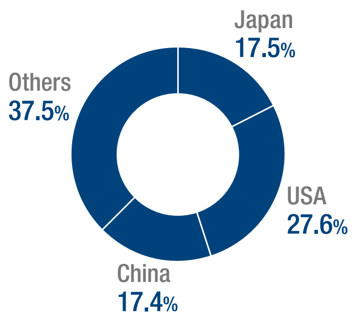
In regard to SK-51, a fixed-headstock lathe announced at exhibitions in different countries during 2018, the Group is conducting evaluation tests towards the scheduled launch of sales for “type A” and “type D” next year, and towards the development of series models.

In regard to software development, the Group is making improvements to the SMOOSS-i machine operations monitoring software based on information acquired from existing users of the software.

SALES FRAMEWORK AND NET SALES BY REGION

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

Net Sales by Region



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

Substantial increase in overseas sales

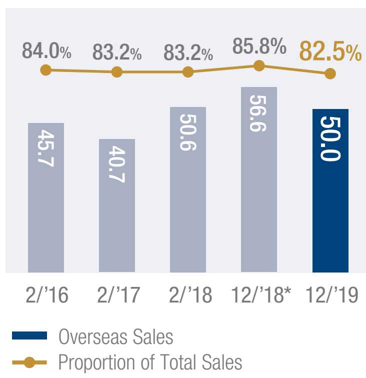
In 2019, the ratio of overseas sales as a proportion of total sales came to 82.5%.

By region, net sales in the U.S. amounted to ¥16,718 million (US$151,982 thousand). Net sales in China came to ¥10,558 million (US$95,982 thousand).

In Japan, net sales totaled ¥10,628 million (US$96,618 thousand).

Overseas Sales and Proportion of Total Sales

(Billions of yen, %)



Consolidated Balance Sheet

Star Micronics Co., Ltd. and Consolidated Subsidiaries
December 31, 2019

Assets	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2019
Current assets:			
Cash and cash equivalents (Note 19)	¥ 19,807	¥ 20,853	$ 180,064
Marketable securities (Notes 5 and 19)	500	500	4,545
Short-term investments (Notes 6 and 19)	351	559	3,191
Receivables (Notes 7 and 19):			
Trade notes and accounts receivable	14,324	18,467	130,218
Unconsolidated subsidiaries and associated companies	67	289	609
Other	1,421	1,130	12,918
Allowance for doubtful receivables	(112)	(142)	(1,018)
Inventories (Note 8)	20,139	17,783	183,082
Prepaid expenses and other	333	475	3,027
Total current assets	56,830	59,914	516,636
Property, plant and equipment (Note 9):			
Land	2,048	2,554	18,618
Buildings and structures	15,274	17,765	138,855
Machinery and equipment	22,471	23,131	204,282
Lease assets (Note 18)	170	150	1,545
Construction in progress	508	23	4,618
Other	894		8,127
Total	41,365	43,623	376,045
Accumulated depreciation	(25,823)	(28,102)	(234,754)
Net property, plant and equipment	15,542	15,521	141,291
Investments and other assets:			
Investment securities (Notes 5 and 19)	1,974	1,497	17,945
Investments in unconsolidated subsidiaries and associated companies	368	388	3,346
Deferred tax assets (Note 14)	923	1,491	8,391
Other assets	757	1,124	6,882
Total investments and other assets	4,022	4,500	36,564
Total	¥ 76,394	¥ 79,935	$ 694,491

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen 2019	2018	Thousands of U.S. dollars (Note 1) 2019
Current liabilities:			
Payables (Note 19):			
Trade notes and accounts payable	¥ 7,251	¥ 10,431	$ 65,918
Unconsolidated subsidiaries and associated companies	1	1	9
Other	2,638	3,620	23,982
Short-term bank loans (Notes 10 and 19)	2,500	2,500	22,727
Current portion of long-term debt (Note 10)	179	24	1,627
Income taxes payable (Note 14)	709	821	6,446
Accrued expenses	769	1,027	6,991
Other	1,882	2,153	17,109
Total current liabilities	15,929	20,577	144,809
Long-term liabilities:			
Convertible bonds (Notes 10 and 19)	8,023	8,039	72,936
Long-term debt (Note 10)	544	41	4,946
Liability for retirement benefits (Note 11)	923	1,752	8,391
Deferred tax liabilities (Note 14)	98	117	891
Other	87	97	791
Total long-term liabilities	9,675	10,046	87,955
Commitments and contingent liabilities (Note 18)			
Equity (Notes 12, 13 and 25):			
Common stock – authorized, 158,000,000 shares; issued, 45,091,334 shares in 2019 and 45,772,234 shares in 2018	12,722	12,722	115,655
Capital surplus	13,050	13,877	118,636
Stock acquisition rights (Note 13)	421	314	3,827
Retained earnings	38,541	36,461	350,373
Treasury stock – at cost, 9,841,986 shares in 2019 and 9,910,156 shares in 2018	(12,144)	(12,068)	(110,400)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	116	87	1,055
Foreign currency translation adjustments	(2,571)	(2,301)	(23,373)
Defined retirement benefit plans	112	(540)	1,018
Total	50,247	48,552	456,791
Noncontrolling interests	543	760	4,936
Total equity	50,790	49,312	461,727
Total	¥ 76,394	¥ 79,935	$ 694,491

See notes to consolidated financial statements.

Consolidated Statement of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net sales	¥60,652	¥65,940	$551,382
Cost of sales (Note 11)	38,330	40,478	348,455
Gross profit	22,322	25,462	202,927
Selling, general and administrative expenses (Notes 11 and 15)	16,505	15,750	150,045
Operating income	5,817	9,712	52,882
Other income (expenses):			
Interest and dividend income	216	187	1,964
Interest expense	(16)	(7)	(145)
Foreign exchange loss – net	(106)	(337)	(964)
Gain on sale of property, plant and equipment	45	6	409
Gain on sale of shares of subsidiaries and associates (Note 16)		149	
Loss on disposal of property, plant and equipment	(164)	(122)	(1,491)
Reversal of loss on impairment of long-lived assets	236		2,145
Loss on impairment of long-lived assets (Note 9)	(257)	(173)	(2,336)
Business restructuring expenses (Note 17)	(689)	(684)	(6,264)
Other – net	250	(48)	2,273
Other income (expenses) – net	(485)	(1,029)	(4,409)
Income before income taxes	5,332	8,683	48,473
Income taxes (Note 14):			
Current	1,263	1,599	11,482
Deferred	223	165	2,027
Total income taxes	1,486	1,764	13,509
Net income	3,846	6,919	34,964
Net (loss) income attributable to noncontrolling interests	(208)	124	(1,891)
Net income attributable to owners of the parent	¥ 4,054	¥ 6,795	$ 36,855
	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 3.s, 12 and 22):			
Basic net income	¥113.72	¥186.04	$1.03
Diluted net income	99.34	163.42	0.90
Cash dividends applicable to the year	56.00	54.00	0.51

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Net income	¥3,846	¥ 6,919	$34,964
Other comprehensive income (Note 21):			
Unrealized gain (loss) on available-for-sale securities	29	(78)	264
Foreign currency translation adjustments	(259)	(1,149)	(2,355)
Defined retirement benefit plans	653	(158)	5,936
Share of other comprehensive (loss) gain in associates	(11)	0	(100)
Total other comprehensive income	412	(1,385)	3,745
Comprehensive income	¥4,258	¥ 5,534	$38,709
Total comprehensive income attributable to (Note 21):			
Owners of the parent	¥4,465	¥ 5,443	$40,591
Noncontrolling interests	(207)	91	(1,882)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2019

	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, 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
Net income attributable to owners of the parent					4,054					4,054		4,054
Cash dividends, ¥56.0 per share					(1,974)					(1,974)		(1,974)
Purchase of treasury stock	(682)					(1,001)				(1,001)		(1,001)
Disposal of treasury stock	69		14			84				98		98
Retirement of treasury stock			(841)			841						
Net change in the year				107			29	(270)	652	518	(217)	301
Balance, December 31, 2019	35,249	¥12,722	¥13,050	¥421	¥38,541	¥(12,144)	¥116	¥(2,571)	¥ 112	¥50,247	¥ 543	¥50,790

	Thousands of U.S. dollars (Note 1)										
						Accumulated other comprehensive income (loss)					
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock– at cost	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total equity
Balance, December 31, 2018	$115,655	$126,154	$2,854	$331,464	$(109,709)	$ 791	$(20,918)	$(4,909)	$441,382	$ 6,909	$448,291
Net income attributable to owners of the parent				36,855					36,855		36,855
Cash dividends, $0.51 per share				(17,946)					(17,946)		(17,946)
Purchase of treasury stock					(9,100)				(9,100)		(9,100)
Disposal of treasury stock		127			764				891		891
Retirement of treasury stock		(7,645)			7,645						
Net change in the year			973			264	(2,455)	5,927	4,709	(1,973)	2,736
Balance, December 31, 2019	$115,655	$118,636	$3,827	$350,373	$(110,400)	$1,055	$(23,373)	$ 1,018	$456,791	$ 4,936	$461,727

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Operating activities:			
Income before income taxes	¥ 5,332	¥ 8,683	$ 48,473
Adjustments for:			
Income taxes – paid	(1,748)	(1,559)	(15,891)
Depreciation and amortization	2,419	1,954	21,991
Reversal of loss on impairment of long-lived assets	(236)		(2,145)
Loss on impairment of long-lived assets	257	173	2,336
Gain on sale of shares of subsidiaries and associates		(149)	
Business restructuring expenses	689	684	6,264
(Reversal of allowance for) provision for doubtful receivables	(29)	1	(264)
Loss on sale and disposal of property, plant and equipment	119	116	1,082
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	4,134	(2,522)	37,582
Increase in inventories	(2,396)	(1,152)	(21,782)
(Decrease) increase in trade payables	(3,163)	1,068	(28,755)
Increase in liability for retirement benefits	100	101	909
Other – net	(354)	(1,309)	(3,218)
Total adjustments	(208)	(2,594)	(1,891)
Net cash provided by operating activities	5,124	6,089	46,582
Investing activities:			
Purchases of property, plant and equipment	(3,575)	(3,408)	(32,500)
Proceeds from sale of property, plant and equipment	884	386	8,036
Decrease in short-term investments	142	17	1,291
Purchases of marketable and investment securities	(853)	(828)	(7,754)
Proceeds from sale of marketable and investment securities	500	790	4,545
Proceeds from sale of shares of subsidiaries and associates resulting in change in scope of consolidation		237	
Other – net	(248)	(144)	(2,254)
Net cash used in investing activities	(3,150)	(2,950)	(28,636)
Financing activities:			
Dividends paid to shareholders	(1,975)	(1,975)	(17,955)
Dividends paid to noncontrolling shareholders of consolidated subsidiaries	(10)	(6)	(91)
Payments for purchase of treasury stock	(1,001)	(1,802)	(9,100)
Disposal of treasury stock	84	43	764
Other – net	(113)	(26)	(1,027)
Net cash used in financing activities	(3,015)	(3,766)	(27,409)
Foreign currency translation adjustments on cash and cash equivalents	(5)	(477)	(46)
Net decrease in cash and cash equivalents	(1,046)	(1,104)	(9,509)
Cash and cash equivalents at beginning of year	20,853	21,957	189,573
Cash and cash equivalents at end of year	¥19,807	¥20,853	$180,064

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2019

1. Basis of Presentation of Consolidated Financial Statements

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

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

In addition, certain reclassifications have been made in the consolidated financial statements of the year ended December 31, 2018 to conform to the classifications used in the year ended December 31, 2019.

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 ¥110 to $1, the approximate rate of exchange at December 31, 2019.

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 ended December 31, 2018. 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 ended December 31, 2018.

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, ¥649 million and ¥709 million, respectively. In addition, the other comprehensive loss amounted to ¥1,006 million.

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, 2019, include the accounts of the Company and its 18 (18 in 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 in 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 noncontributory funded pension plan covering substantially all of its employees. To provide for the payment of retirement benefits and pension plan payments to employees, the Company recorded a reserve equivalent to the amounts recognized as necessary at the end of the period under review based on the projected retirement benefits obligation and the fair value of the pension plan assets at the balance sheet date.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses 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 that were granted on and after May 1, 2006 are recognized based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with ASBJ Statement No. 8, "Accounting Standard for Share-based Payment." Stock options granted to nonemployees are accounted for based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

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 consolidated balance sheet.

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

All other leases are accounted for as operating leases.

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.

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 the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after January 1, 2019. The Company retrospectively applied the revised accounting standard effective January 1, 2019, and deferred tax assets of ¥462 million and deferred tax liabilities of ¥117 million which were previously classified as current assets and current liabilities, respectively, as of December 31, 2019, have been reclassified as investments and other assets and long-term liabilities, respectively, in the accompanying consolidated balance sheet.

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

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. Accounting Change

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

In adopting the accounting standard, foreign consolidated subsidiaries applied it retrospectively as a transition method with the cumulative effect of initially applying the standard recognized as of January 1, 2019. The impact of this change is insignificant.

5. Marketable and Investment Securities

Marketable and investment securities at December 31, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Current:			
Trust fund investments and other	¥ 500	¥ 500	$ 4,545
Total	¥ 500	¥ 500	$ 4,545
Non-current:			
Equity securities	¥ 271	¥ 241	$ 2,463
Corporate and other bonds	1,471	1,061	13,373
Trust fund investments and other	232	195	2,109
Total	¥1,974	¥1,497	$17,945

The costs and aggregate fair values of securities classified as available-for-sale at December 31, 2019 and 2018, were as follows:

	Millions of yen			
2019	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	¥ 118	¥85		¥ 203
Corporate and other bonds	1,471			1,471
Trust fund investments and other	529	35		564

	Millions of yen			
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

	Thousands of U.S. dollars (Note 1)			
2019	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	$ 1,073	$772		$ 1,845
Corporate and other bonds	13,373			13,373
Trust fund investments and other	4,809	318		5,127

Proceeds from sales of available-for-sale securities for the years ended December 31, 2019 and 2018, were ¥6,500 million ($59,091 thousand) and ¥5,790 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended December 31, 2019, were ¥0 million ($0 thousand) and nil, and for the year ended December 31, 2018, were ¥5 million and nil, respectively.

6. Short-term Investments

Short-term investments at December 31, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Deposits over three-month period	¥351	¥414	$3,191
Other		145	
Total	¥351	¥559	$3,191

7. Trade Notes and Accounts Receivable

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

Receivables due after one year (less unearned interest) amounted to ¥957 million ($8,700 thousand) and ¥1,286 million at December 31, 2019 and 2018, respectively.

8. Inventories

Inventories at December 31, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Merchandise	¥ 942	¥ 760	$ 8,564
Finished products	11,808	9,288	107,345
Work in process	4,486	4,539	40,782
Raw materials and supplies	2,903	3,196	26,391
Total	¥20,139	¥17,783	$183,082

9. Long-lived Assets

The Group reviewed its long-lived assets for impairment as of the years ended December 31, 2019 and 2018, and recognized impairment losses of ¥257 million ($2,336 thousand) and ¥173 million as other expenses, respectively.

The impairment losses recognized for the year ended December 31, 2019 relate to a decision to sell plant and land used by the Special Products Segment. The impairment losses recognized for the year ended December 31, 2018 relate to production facilities used by the Precision Products Segment due to a downturn in profitability as well as a decision to no longer continue using the corporate dormitory for its current purpose.

The recoverable amounts of these assets were estimated at December 31, 2019 and 2018 using fair value less costs to sell.

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

Short-term bank loans at December 31, 2019 and 2018, consisted of bank overdrafts. The annual interest rates applicable for the years ended December 31, 2019 and 2018, were 0.11% and 0.10%, respectively.

Long-term debt at December 31, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Zero-coupon convertible bonds due 2021	¥8,023	¥8,039	$72,936
Lease obligations	111	65	1,009
Others	612		5,564
Total	8,746	8,104	79,509
Less: current portion	179	24	1,627
Long-term debt, less current portion	¥8,567	¥8,080	$77,882

Annual maturities of long-term debt at December 31, 2019, were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2020	¥ 179	$ 1,627
2021	8,164	74,218
2022	121	1,100
2023	98	891
2024	69	627
2025 and thereafter	92	837
Total	¥8,723	$79,300

Under specific conditions, the convertible bonds outstanding at December 31, 2019, are convertible into 4,746 thousand shares of common stock of the Company from June 30, 2016 to June 2, 2021 at ¥1,686 ($15.33) per share. The conversion prices of the convertible bonds are subject to adjustments in certain circumstances. Pursuant to the terms and conditions of the convertible bonds, the conversion price of ¥1,677 ($15.25) is applied to any conversion requests from January 1, 2020.

11. 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, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Balance at beginning of year	¥9,876	¥9,927	$89,782
Current service cost	183	151	1,664
Interest cost	105	88	954
Actuarial gains and losses	(392)	26	(3,564)
Benefits paid	(379)	(311)	(3,445)
Others	1	(5)	9
Balance at end of year	¥9,394	¥9,876	$85,400

(2) The changes in plan assets for the years ended December 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Balance at beginning of year	¥8,124	¥8,494	$73,854
Expected return on plan assets	203	177	1,845
Actuarial gains and losses	306	(427)	2,782
Contributions from the employer	217	191	1,973
Benefits paid	(379)	(311)	(3,445)
Balance at end of year	¥8,471	¥8,124	$77,009

(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, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Funded defined benefit obligation	¥ 9,312	¥ 9,806	$ 84,655
Plan assets	(8,471)	(8,124)	(77,009)
Total	841	1,682	7,646
Unfunded defined benefit obligation	82	70	745
Net liability arising from defined benefit obligation	¥ 923	¥ 1,752	$ 8,391

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Liability for retirement benefits	¥923	¥1,752	$8,391
Net liability arising from defined benefit obligation	¥923	¥1,752	$8,391

(4) The components of net periodic benefit costs for the years ended December 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Service cost	¥ 183	¥ 151	$ 1,664
Interest cost	105	88	954
Expected return on plan assets	(203)	(177)	(1,845)
Recognized net actuarial gains and losses	232	230	2,109
Net periodic benefit costs	¥ 317	¥ 292	$ 2,882

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended December 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Actuarial gains and losses	¥930	¥(223)	$8,455
Total	¥930	¥(223)	$8,455

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of December 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Unrecognized actuarial gains and losses	¥(160)	¥770	$(1,455)
Total	¥(160)	¥770	$(1,455)

(7) Plan assets

a. Components of plan assets

Plan assets as of December 31, 2019 and 2018, consisted of the following:

	2019	2018
Debt investments	24%	24%
Equity investments	23	21
General account	33	35
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, 2019 and 2018, are set forth as follows:

	2019	2018
Discount rate	1.1%	1.1%
Expected rate of return on plan assets	2.5%	2.5%
Expected rate of salary increase	4.1%	3.0%

(9) Defined contribution pension plan

The amounts of the required contribution to the defined contribution plans of the consolidated subsidiaries were ¥156 million ($1,418 thousand) and ¥150 million for the years ended December 31, 2019 and 2018, respectively.

12. 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.

13. Stock Options

The stock options outstanding as of December 31, 2019, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
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
2019 I Stock Option	3 directors 4 executive officers	42,700 shares	April 15, 2019	¥ 1	From April 15, 2019 to April 14, 2049
2019 II Stock Option	7 executive officers 16 employees 8 directors of subsidiaries	161,000 shares	April 15, 2019	¥1,805	From June 1, 2021 to May 31, 2026

The stock option activity was as follows:

	Shares						
	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
Year ended December 31, 2018							
Non-vested							
February 28, 2018 – Outstanding							157,000
Granted							
Canceled							
Vested							(157,000)
December 31, 2018 – Outstanding							
Vested							
February 28, 2018 – Outstanding	63,000	18,900	122,400	12,900	143,000	36,200	
Vested							157,000
Exercised	(10,800)		(5,000)				(17,000)
Canceled					(2,000)		
December 31, 2018 – Outstanding	52,200	18,900	117,400	12,900	141,000	36,200	140,000
Year ended December 31, 2019							
Non-vested							
December 31, 2018 – Outstanding							
Granted							
Canceled							
Vested							
December 31, 2019 – Outstanding							
Vested							
December 31, 2018 – Outstanding	52,200	18,900	117,400	12,900	141,000	36,200	140,000
Vested							
Exercised	**(38,200)**		**(13,100)**				**(17,300)**
Canceled	**(14,000)**				**(4,000)**		
December 31, 2019 – Outstanding		**18,900**	**104,300**	**12,900**	**137,000**	**36,200**	**122,700**
Exercise price	¥1,119	¥ 1	¥1,466	¥ 1	¥2,203	¥ 1	¥1,289
Average stock price at exercise	¥1,444		¥1,741				¥1,651
Fair value price at grant date	¥ 191	¥1,209	¥ 265	¥1,995	¥ 407	¥ 988	¥ 165

	Shares					
	2017 I Stock Option	2017 II Stock Option	2018 I Stock Option	2018 II Stock Option	2019 I Stock Option	2019 II Stock Option
Year ended December 31, 2018						
Non-vested						
February 28, 2018 – Outstanding		146,000				
Granted			24,400	175,000		
Canceled		(2,000)				
Vested			(24,400)			
December 31, 2018 – Outstanding		144,000		175,000		
Vested						
February 28, 2018 – Outstanding	24,700					
Vested			24,400			
Exercised						
Canceled						
December 31, 2018 – Outstanding	24,700		24,400			
Year ended December 31, 2019						
Non-vested						
December 31, 2018 – Outstanding		144,000		175,000		
Granted					**42,700**	**161,000**
Canceled		**(6,000)**		**(6,000)**		
Vested		**(138,000)**			**(42,700)**	
December 31, 2019 – Outstanding				**169,000**		**161,000**
Vested						
December 31, 2018 – Outstanding	24,700		24,400			
Vested		**138,000**			**42,700**	
Exercised						
Canceled						
December 31, 2019 – Outstanding	**24,700**	**138,000**	**24,400**		**42,700**	
Exercise price	¥ 1	¥1,830	¥ 1	¥2,017	¥ 1	¥1,805
Average stock price at exercise						
Fair value price at grant date	¥1,384	¥ 246	¥1,644	¥ 308	¥1,608	¥ 352

The assumptions used to measure fair value of the 2019 I Stock Options were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	32.842%
Estimated remaining outstanding period:	3.9 years
Estimated dividend:	¥54.00 per share
Risk free interest rate:	(0.177)%

The assumptions used to measure fair value of the 2019 II Stock Options were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	32.599%
Estimated remaining outstanding period:	4.6 years
Estimated dividend:	¥54.00 per share
Risk free interest rate:	(0.180)%

14. Income Taxes

The Company and its consolidated subsidiaries in Japan are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 29.9% and 30.2% for the years ended December 31, 2019 and 2018, respectively.

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, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Deferred tax assets			
Unrealized profit on inventories	¥ 530	¥ 488	$ 4,818
Depreciation	352	352	3,200
Liability for retirement benefits	272	521	2,473
Accrued bonuses	211	235	1,918
Inventories	192	166	1,746
Impairment loss	158	175	1,436
Other – net	440	600	4,000
Less valuation allowance	(359)	(318)	(3,264)
Total	1,796	2,219	16,327
Deferred tax liabilities			
Undistributed earnings of associated companies	(783)	(665)	(7,118)
Other – net	(188)	(180)	(1,709)
Total	(971)	(845)	(8,827)
Net deferred tax assets (liabilities)	¥ 825	¥1,374	$ 7,500

A reconciliation between the normal effective statutory tax rate for the years ended December 31, 2019 and 2018, and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	2019	2018
Normal effective statutory tax rate	29.9%	30.2%
Undistributed earnings of associated companies	4.5	1.9
Effect of foreign tax rate differences	(4.5)	(4.5)
Research and development tax credits	(1.7)	(0.9)
Tax credits for salary growth		(0.4)
Valuation allowance	1.2	(0.2)
Other – net	(1.5)	(5.8)
Actual effective tax rate	27.9%	20.3%

15. Research and Development Costs

Research and development costs charged to income were ¥1,680 million ($15,273 thousand) and ¥1,469 million for the years ended December 31, 2019 and 2018, respectively.

16. Gain on Sale of Shares of Subsidiaries and Associates

Gain on sale of shares 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.

17. Business Restructuring Expenses

Business restructuring expenses for the year ended December 31, 2019 were due to a restructuring of the Company and Shanghai S&E Precision Co., Ltd., a subsidiary of the Company, and consist of special retirement expenses of ¥340 million ($3,091 thousand), and impairment losses of ¥349 million ($3,173 thousand). Business restructuring expenses for the year ended December 31, 2018 were due to a restructuring of Star Micronics Manufacturing Dalian Co., Ltd., a subsidiary of the Company, and consist of special retirement expenses of ¥420 million, impairment losses of ¥230 million and other expenses of ¥34 million.

The impairment losses for the year ended December 31, 2019 were for production facilities used by the Precision Products Segment and arose due to a decision to discontinue the Precision Products Division of the Company. The impairment losses also related to the production facilities of Shanghai S&E Precision Co., Ltd. and arose due to a decision to dissolve the entity. The Impairment losses for the year ended December 31, 2018 were for production facilities of Star Micronics Manufacturing Dalian Co., Ltd. and arose due to a decision to withdraw from its precision products business.

The recoverable amounts of these assets as of December 31, 2019 were measured at their net selling price evaluated at the real estate appraisals, the estimated selling prices, or zero. The recoverable amounts of these assets as of December 31, 2018 were measured at their net selling price determined by estimated amounts or zero.

18. 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, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Due within one year	¥ 42	¥ 84	$ 382
Due after one year	87	210	791
Total	¥129	¥294	$1,173

19. 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

December 31, 2019	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Carrying amount	Fair value	Unrealized gain/loss	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥19,807	¥19,807		$180,064	$180,064	
Marketable and investment securities	2,238	2,238		20,345	20,345	
Short-term investments	351	351		3,191	3,191	
Trade receivables	14,391	14,391		130,827	130,827	
Total	¥36,787	¥36,787		$334,427	$334,427	
Trade payables	¥ 7,252	¥ 7,252		$ 65,927	$ 65,927	
Short-term bank loans	2,500	2,500		22,727	22,727	
Convertible bonds	8,023	8,692	¥669	72,936	79,018	$6,082
Total	¥17,775	¥18,444	¥669	$161,590	$167,672	$6,082
Derivatives	¥ (54)	¥ (54)		$ (491)	$ (491)	

December 31, 2018	Millions of yen		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥20,853	¥20,853	
Marketable and investment securities	1,790	1,790	
Short-term investments	559	559	
Trade receivables	18,756	18,756	
Total	¥41,958	¥41,958	
Trade payables	¥10,432	¥10,432	
Short-term bank loans	2,500	2,500	
Convertible bonds	8,039	8,460	¥421
Total	¥20,971	¥21,392	¥421
Derivatives	¥ 110	¥ 110	

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)
	2019	2018	2019
Investments in equity instruments that do not have a quoted market price in an active market	¥ 67	¥ 68	$ 609
Investments in unconsolidated subsidiaries and associated companies	265	285	2,409
Investments in limited partnerships	168	140	1,527
Total	¥500	¥493	$4,545

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

	Millions of yen			
December 31, 2019	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	¥19,807			
Marketable and investment securities	500	¥1,573	¥95	
Short-term investments	351			
Trade receivables	13,434	957		
Total	¥34,092	¥2,530	¥95	

	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	

	Thousands of U.S. dollars (Note 1)			
December 31, 2019	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	$180,064			
Marketable and investment securities	4,545	$14,300	$864	
Short-term investments	3,191			
Trade receivables	122,127	8,700		
Total	$309,927	$23,000	$864	

20. Derivatives

Derivative transactions to which hedge accounting is not applied

	Millions of yen			
At December 31, 2019	Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Selling	¥3,458		¥(41)	¥(41)
Buying	512		(13)	(13)
Total	¥3,970		¥(54)	¥(54)

At December 31, 2018	Millions of yen 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

At December 31, 2019	Thousands of U.S. dollars (Note 1) Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Selling	$31,436		$(373)	$(373)
Buying	4,655		(118)	(118)
Total	$36,091		$(491)	$(491)

21. Other Comprehensive Income

The components of other comprehensive income for the years ended December 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 34	¥ (99)	$ 309
Reclassification adjustments to profit or loss	0		0
Amount before income tax effect	34	(99)	309
Income tax effect	(5)	21	(45)
Total	¥ 29	¥ (78)	$ 264
Foreign currency translation adjustments:			
Adjustments arising during the year	¥(259)	¥ (907)	$(2,355)
Reclassification adjustments to profit or loss		(242)	
Total	¥(259)	¥(1,149)	$(2,355)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 698	¥ (453)	$ 6,346
Reclassification adjustments to profit or loss	232	230	2,109
Amount before income tax effect	930	(223)	8,455
Income tax effect	(277)	65	(2,519)
Total	¥ 653	¥ (158)	$ 5,936
Share of other comprehensive income in an associate:			
(Losses) gains arising during the year	¥ (11)	¥ 0	$ (100)
Total	¥ (11)	¥ 0	$ (100)
Total other comprehensive income	¥ 412	¥(1,385)	$ 3,745

22. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2019 and 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, 2019				
Basic EPS				
Net income attributable to common shareholders	**¥4,054**	**35,648**	**¥113.72**	**$1.03**
Effect of dilutive securities				
Convertible bonds	**(24)**	**4,746**		
Stock acquisition rights		**173**		
Diluted EPS				
Net income for computation	**¥4,030**	**40,567**	**¥ 99.34**	**$0.90**
Year ended December 31, 2018				
Basic EPS				
Net income attributable to common shareholders	¥6,795	36,525	¥186.04	
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	

23. 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, 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, 2019	Special Products	Machine Tools	Precision Products	Total	Reconcilia-tions	Consolidated
Sales to external customers	**¥12,542**	**¥44,921**	**¥3,189**	**¥60,652**		**¥60,652**
Intersegment sales or transfers						
Total	**12,542**	**44,921**	**3,189**	**60,652**		**60,652**
Segment profit	**¥ 1,614**	**¥ 6,333**	**¥ 184**	**¥ 8,131**	**¥ (2,314)**	**¥ 5,817**
Segment assets	**¥11,339**	**¥49,054**	**¥4,265**	**¥64,658**	**¥11,736**	**¥76,394**
Other items:						
Depreciation	**401**	**1,500**	**242**	**2,143**	**276**	**2,419**
Investments in associates	**265**			**265**		**265**
Increase in property, plant and equipment and intangible assets	**334**	**2,290**	**89**	**2,713**	**354**	**3,067**

	Millions of yen					
	Reportable Segment					
December 31, 2018	Special Products	Machine Tools	Precision Products	Total	Reconcilia-tions	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

	Thousands of U.S. dollars (Note 1)					
	Reportable Segment					
December 31, 2019	Special Products	Machine Tools	Precision Products	Total	Reconcilia-tions	Consolidated
Sales to external customers	**$114,018**	**$408,373**	**$28,991**	**$551,382**		**$551,382**
Intersegment sales or transfers						
Total	**114,018**	**408,373**	**28,991**	**551,382**		**551,382**
Segment profit	**$ 14,673**	**$ 57,573**	**$ 1,672**	**$ 73,918**	**$ (21,036)**	**$ 52,882**
Segment assets	**$103,082**	**$445,945**	**$38,773**	**$587,800**	**$106,691**	**$694,491**
Other items:						
Depreciation	**3,646**	**13,636**	**2,200**	**19,482**	**2,509**	**21,991**
Investments in associates	**2,409**			**2,409**		**2,409**
Increase in property, plant and equipment and intangible assets	**3,037**	**20,818**	**809**	**24,664**	**3,218**	**27,882**

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 ended December 31, 2018 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 ended December 31, 2018. Turning to overseas consolidated subsidiaries and the period from January 1, 2018 to February 28, 2018, net sales amounted to ¥2,119 million, ¥8,515 million and ¥385 million in the Special Products, Machine Tools and Precision Products segments, respectively. Segment profit came to ¥78 million, ¥571 million and ¥0 million in the Special Products, Machine Tools and Precision Products segments, respectively.

Related Information

1. Related information by geographical area at December 31, 2019 and 2018, consisted of the following:

(1) Net Sales

	Millions of yen				
December 31, 2019	Japan	USA	China	Others	Total
	¥10,628	**¥16,718**	**¥10,558**	**¥22,748**	**¥60,652**

	Millions of yen				
December 31, 2018	Japan	USA	China	Others	Total
	¥9,372	¥16,631	¥10,359	¥29,578	¥65,940

	Thousands of U.S. dollars (Note 1)				
December 31, 2019	Japan	USA	China	Others	Total
	$96,618	**$151,982**	**$95,982**	**$206,800**	**$551,382**

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

(2) Property, Plant and Equipment

	Millions of yen				
December 31, 2019	Japan	Thailand	China	Others	Total
	¥9,300	**¥2,593**	**¥2,177**	**¥1,472**	**¥15,542**

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

	Thousands of U.S. dollars (Note 1)				
December 31, 2019	Japan	Thailand	China	Others	Total
	$84,545	**$23,573**	**$19,791**	**$13,382**	**$141,291**

2. Information for impairment loss of long-lived assets by reportable segments at December 31, 2019 and 2018, was as follows:

	Millions of yen					
	Reportable Segment					
December 31, 2019	Special Products	Machine Tools	Precision Products	Total	Eliminations or Corporate	Consolidated
	¥257		**¥349**	**¥606**		**¥606**

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

	Thousands of U.S. dollars (Note 1)					
	Reportable Segment					
December 31, 2019	Special Products	Machine Tools	Precision Products	Total	Eliminations or Corporate	Consolidated
	$2,336		**$3,173**	**$5,509**		**$5,509**

24. Related Party Disclosures

Transactions of the Company with related parties for the years ended December 31, 2019 and 2018, were as follows:

Year ended December 31, 2019

Related party	Category	Description of transaction	Millions of yen	Thousands of U.S. dollars (Note 1)
Hajime Sato	Chairman of the Board	Exercise of stock options	¥12	$109
Junichi Murakami	Executive officer	Exercise of stock options	¥12	$109

Year ended December 31, 2018
Not applicable

25. Subsequent Event

The following appropriation of retained earnings at December 31, 2019, is to be approved at the Company's Board of Directors' meeting held on February 27, 2020:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥28 ($0.255) per share	¥987	$8,973

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, 2019, 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, 2019, 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.

Deloitte Touche Tohmatsu LLC.

March 26, 2020

Member of
Deloitte Touche Tohmatsu Limited

Stock Information

as of December 31, 2019

Common Stock Authorized 158,000,000
Issued 45,091,334*

Paid-in Capital 12,721,939,515 yen

Number of Shareholders 9,466

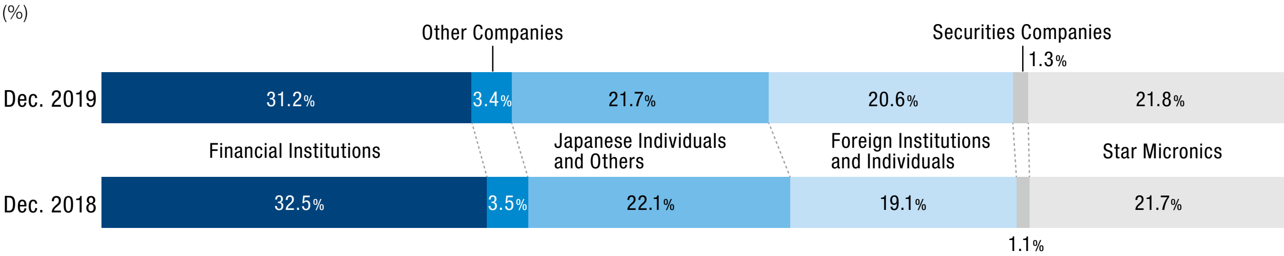
Stock Listing First Section of the Tokyo Stock Exchange

Transfer Agent Mitsubishi UFJ Trust and Banking Corporation
1-4-5 Marunouchi, Chiyoda,
Tokyo 100-8212, Japan

* The decrease in the number of shares issued was due to a retirement of 680,900 shares.

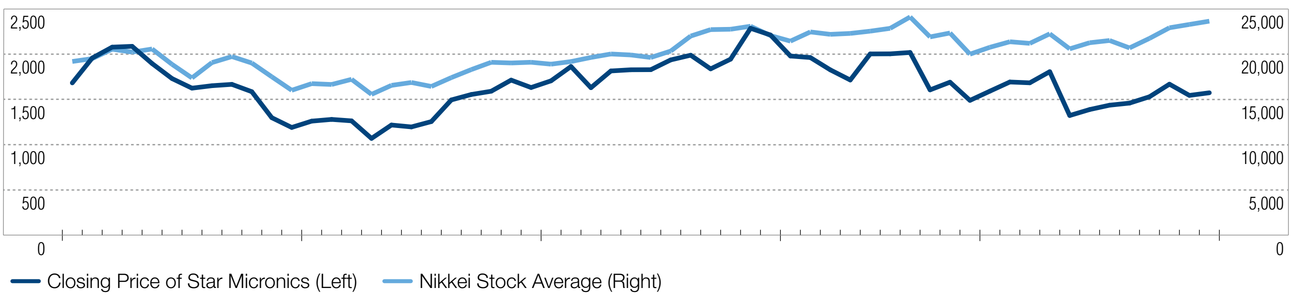
COMPOSITION OF SHAREHOLDERS

(%)



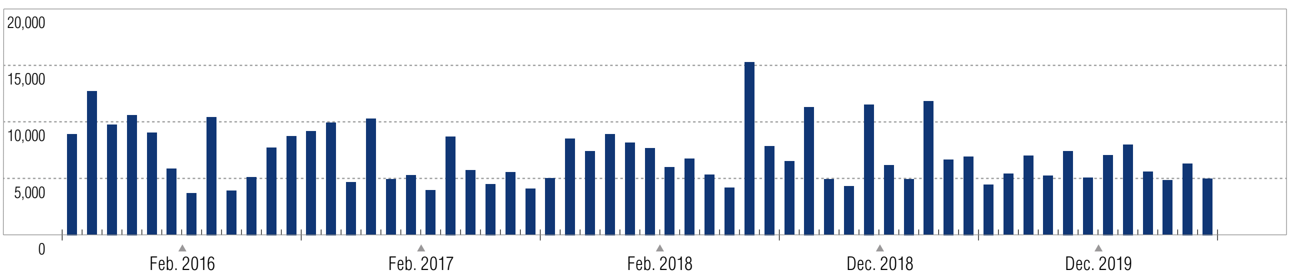
STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)

(Yen) (Yen)



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. 2016	Feb. 2017	Feb. 2018	Dec. 2018	**Dec. 2019**
At year-end	1,192	1,633	2,213	1,491	**1,575**
High	2,238	1,770	2,480	2,270	**1,893**
Low	1,125	1,023	1,588	1,332	**1,258**

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