



Beyond 70 Years

ANNUAL REPORT 2020 (PDF Version)

For the year ended December 31, 2020

STAR MICRONICS CO., LTD.



A History That Spans 70 Years

- 1950** ● **Star Seisakusho Co., Ltd.**

Established in Tegoshi, Shizuoka (current Tegoshi, Suruga-ku, Shizuoka-shi) with a capital of ¥500,000, six employees and five automatic lathes, began the manufacture and sale of such products as wristwatch and camera parts as a small workshop factory.
- 1958** ● **Began sales of automatic lathes.**

After finalizing automatic lathes, began sales with the catchphrase, "automatic lathes made by users for users."
- 1960** ● **Tokai Seimitsu Co., Ltd.**

Established Tokai Seimitsu Co., Ltd. in a partnership with Citizen Watch Co., Ltd.
Evolved as a factory specializing in the manufacture of watch screws.
- 1962** ● **Began the export of automatic lathes.**

Exported the first unit to the UK. Cultivated overseas sales channels and steadily increased market share.
- 1965** ● **Changed the company's name to Star Micronics Co., Ltd.**

Absorbed Tokai Seimitsu Co., Ltd. and changed the company's name to Star Micronics Co., Ltd.
- 1971** ● **Began the manufacture and sales of electronic buzzers.**

Widely adopted as a buzzer for clocks. Electronic buzzers extensively used in mobile phones as an incoming call sound source. Captured a large market share throughout the 1990s.
- 1976** ● **Began the manufacture and sales of NC automatic lathes.**

Began the manufacture and sale of NC automatic lathes. Incorporating innovative ideas and mechanisms, extremely well received for precision accuracy.
- 1979** ● **Began the manufacture and sale of small printers.**

Entering the digital printer field, began the manufacture and sale of products a bid to respond to the information age and the widespread use of personal computers.
- 1981** ● **Listed company stock on the Second Section of the Nagoya Stock Exchange.**
● **Began the manufacture and sale of large-scale printers.**

Entered the printer market in earnest.
- 1984** ● **Listed company stock on the First Section of the Nagoya Stock Exchange. (Delisted in 2006.).**
● **Built the new Kikugawa Factory.**

Built a new machine tools production base in Kikugawa-cho, Ogasa-gun (current Kikugawa-shi), Shizuoka Prefecture.
Installed state-of-the-art rationalization system machines and contributed to improved productivity by enabling continuous automated operations.
- 1989** ● **Established Star Micronics Manufacturing Dalian Co., Ltd.**

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

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

Listed on the First Section of the Tokyo Stock Exchange after 40 years of operation.

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

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

2004 ● **Began the manufacture of CNC lathes as finished products at Star Micronics Manufacturing Dalian Co., Ltd.**

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

2012 ● **Established Star Micronics Manufacturing (Thailand) Co., Ltd.**

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

2013 ● **Launched Apple® iOS Compatible MFi Certified Printer**

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

*1 Apple is a trademark of Apple Inc., registered in the U.S. and other countries.

*2 IOS is a trademark or registered trademark of Cisco in the U.S. and other countries and is used under license.

*3 The Bluetooth® word mark and logos are registered trademarks owned by Bluetooth SIG, Inc. and any use of such marks by Star Micronics Co., Ltd. is under license.

2018 ● **Established Star Marketing Japan Co., Ltd.**

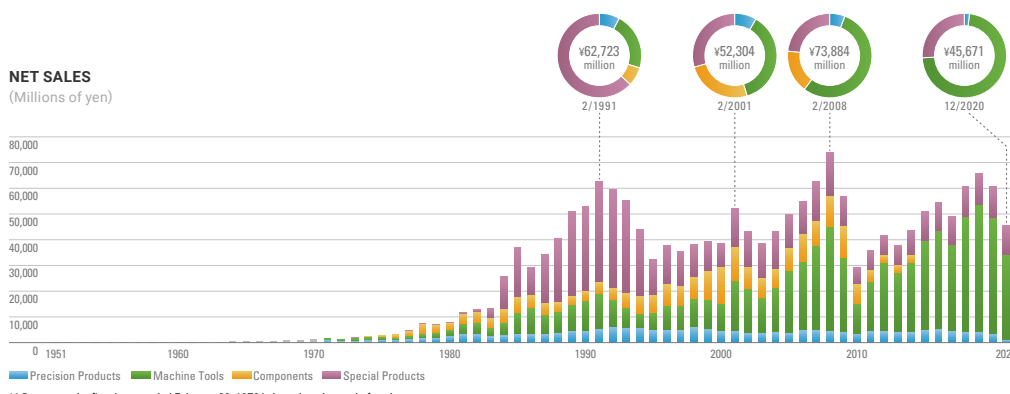
Established Star Marketing Japan Co., Ltd. as a sales subsidiary in Shimbashi, Tokyo in a bid to further develop and expand the mPOS market in Japan. Through activities in the city center, responded quickly to the diverse needs of customers.

2020 ● **Completed construction of a new head office**

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

● **Completed construction of the Solution Center**

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



*1 Data up to the fiscal year ended February 28, 1970 is based on the total of each segment.

*2 Data from the fiscal year ended February 29, 1972 to the fiscal year ended February 28, 2005 is classified into the three Precision Electronic Equipment, Machine Tools and Precision Products segments. Effective from the fiscal year ended February 28, 2006, operations were reclassified into four business segments with Precision Electronics Equipment separated into Special Products and Components. However, data from the fiscal year ended February 29, 1972 to the fiscal year ended February 28, 2005 is based on the four business segments for comparative purposes.

*3 Effective from the fiscal period ended December 31, 2018, Star Micronics Co., Ltd. changed its account settlement date from the end of February to December 31.

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 87% and a ratio of overseas production to all production of 87%.

Star Micronics celebrated its 70th anniversary in July 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 and expanding existing businesses while proactively taking on new challenges.

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Forward-looking Statements

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

Review of the Medium-Term Management Plan (2018-2020)

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

Review of the Medium-Term Management Plan

Achievements and Challenges

Strategies (Principal Initiatives)	Achievements and Challenges
<p>Special Products</p> <ul style="list-style-type: none"> ▪ 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 	<ul style="list-style-type: none"> ▪ Increase mCollection™ brand sales while expanding and upgrading the product lineup in the mPOS market ▪ Reorganization of the sales structure in Europe ▪ Commenced production in Vietnam, worked to reduce costs by expanding production

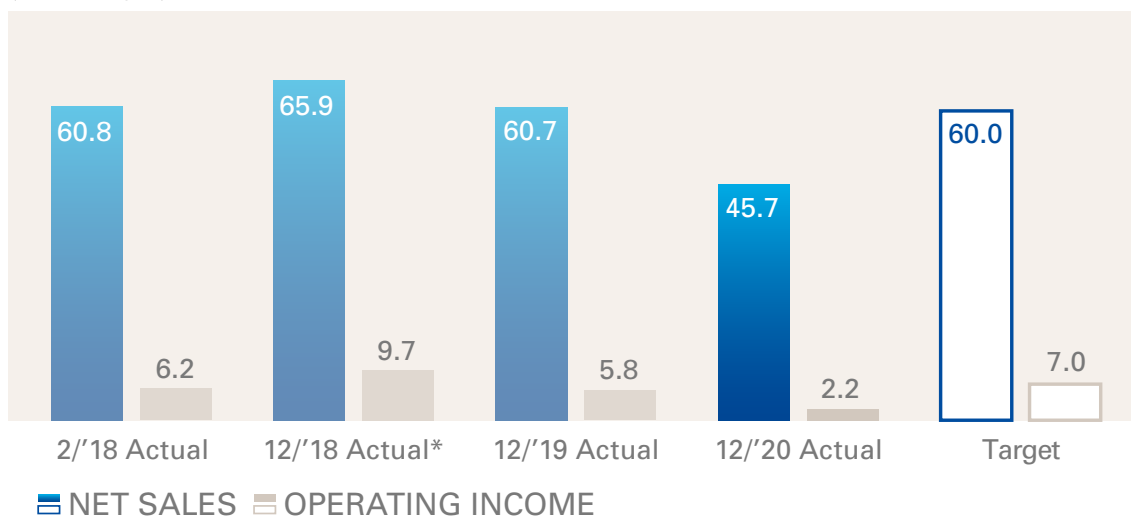
Achievements and Challenges

Strategies (Principal Initiatives)	Achievements and Challenges
<p>Machine Tools</p> <ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Commenced sales of an operation monitoring system, continuing to upgrade and expand IoT services Optimized modular design and production Completed construction of a new facility at the Company's Dalian Plant in China, strengthened the production structure for the China market Completed construction of the Solution Center, strengthened before- and after-sales services
<p>Precision Products</p> <ul style="list-style-type: none"> Cultivate new customers and markets Streamline production and promote automation Increase operating rates utilizing IoT 	<ul style="list-style-type: none"> Undertake an organizational restructure and withdraw from non-wristwatch component operations
<p>New Businesses</p> <ul style="list-style-type: none"> M&A and business alliances, etc. Vibration Power Generators Cloud Services 	<ul style="list-style-type: none"> Withdraw from the vibration power generation business and review the cloud service business structure and systems Establish the New Business Planning Department Promoted consideration of new business and M&As through external collaboration

Performance Targets

Achieved the quantitative targets for both net sales and operating income in the fiscal year ended December 31, 2018
 Fall short for the fiscal year under review due to such factors as declining demand attributable to COVID-19

(Billions of yen)



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

		2020 Actual	2020 Plan
Exchange Rate	US\$	¥106.83	¥110.00
	EUR	¥121.82	¥115.00

Financial Targets

	2020 Actual	2020 Target
Net Sales	¥45.7 billion	¥60.0 billion
Operating Income	¥2.2 billion	¥7.0 billion
Operating Income Ratio	4.8%	11.7%
Return on Equity (ROE)	3.5%	12.0% or more

Returns to Shareholders

	2020 Actual	2020 Target
Total Payout Ratio	118.2%	50.0% or more
DOE	4.1%	4.5% or more
Dividends per Share	¥58	¥60

Financial Highlights

Financial Highlights

Related Information by Geographical Region

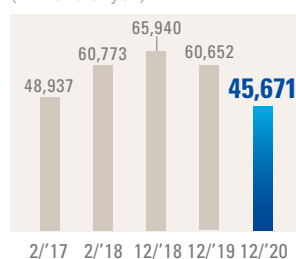
Star Micronics Co., Ltd. and Consolidated Subsidiaries
For the years ended December 2018, 2019 and 2020

	Millions of yen			Change (%)	Thousands of U.S. dollars
	2018	2019	2020	2020/2019	2020
For the year :					
Net sales	¥65,940	¥60,652	¥45,671	-24.7	\$439,144
Operating income	9,712	5,817	2,173	-62.6	20,894
Net income attributable to owners of the parent	6,795	4,054	1,732	-57.3	16,654
Return on sales	10.3%	6.7%	3.8%		
Capital expenditures	4,628	3,067	1,908	-37.8	18,346
Depreciation and amortization	1,954	2,419	2,255	-6.8	21,683
At year-end :					
Total assets	79,935	76,394	71,622	-6.2	688,673
Total equity	49,312	50,790	49,822	-1.9	479,058
Equity ratio	60.3%	65.2%	68.2%		
	Yen			Change (%)	U.S. dollars
Per share :					
Basic net income	¥186.04	¥113.72	¥49.07	-56.9	\$0.47
Diluted net income	163.42	99.34	42.46	-57.3	0.41
Cash dividends applicable to the year	54.00	56.00	58.00	3.6	0.56
Stock information :					
Common shares issued	45,772,234	45,091,334	45,091,334		
Number of shareholders	10,441	9,466	9,103		

Note : The rate of ¥104 to US\$1, prevailing on December 31, 2020, has been used for translation into U.S. dollar amounts.

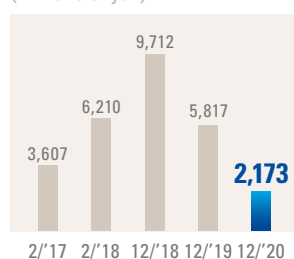
NET SALES

(Millions of yen)



OPERATING INCOME

(Millions of yen)



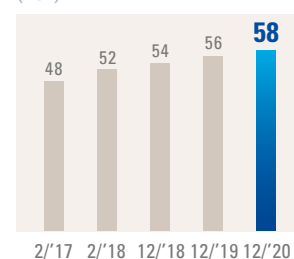
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT

(Millions of yen)



CASH DIVIDENDS APPLICABLE TO THE YEAR

(Yen)



Related Information by Geographical Region

Financial Highlights

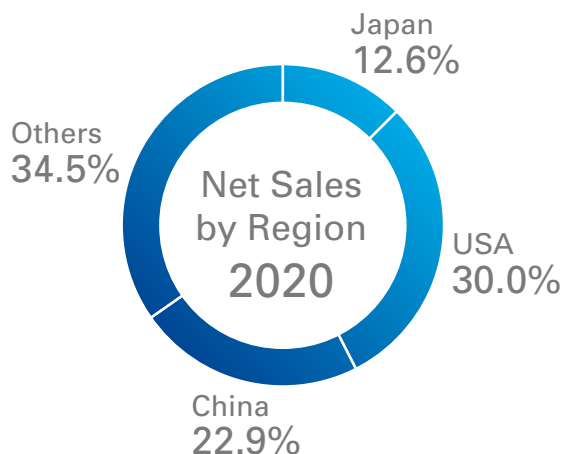
Related Information
by Geographical Region

Star Micronics Co., Ltd. and Consolidated Subsidiaries
For the years ended December 2018, 2019 and 2020

Net Sales by Geographical Region

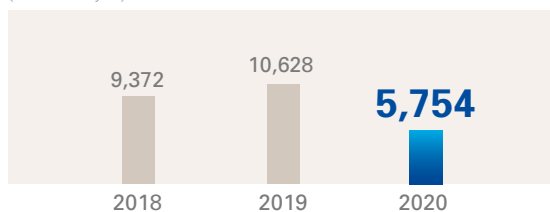
	Millions of yen			Change (%)	Thousands of U.S. dollars
	2018	2019	2020	2020/2019	2020
Japan	¥9,372	¥10,628	¥5,754	-45.9	\$55,327
USA	16,631	16,718	13,708	-18.0	131,807
China	10,359	10,558	10,437	-1.1	100,356
Others	29,578	22,748	15,772	-30.7	151,654
Total	65,940	60,652	45,671	-24.7	439,144

Note : The rate of ¥104 to US\$1, prevailing on December 31, 2020, has been used for translation into U.S. dollar amounts.



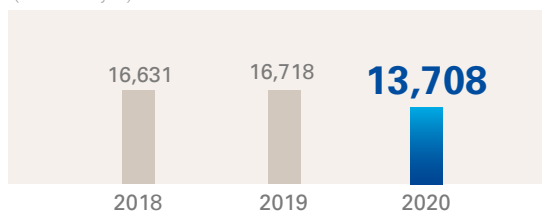
Japan

(Millions of yen)



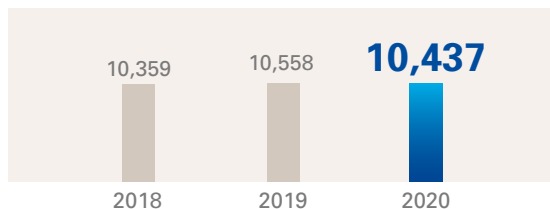
USA

(Millions of yen)



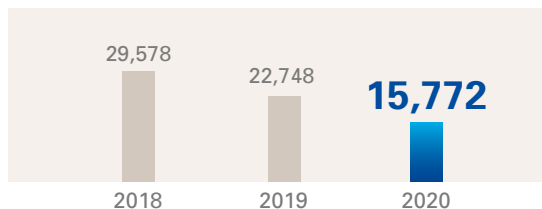
China

(Millions of yen)



Others

(Millions of yen)



To Our Shareholders

Mamoru Sato

Representative Director,
President and CEO



Beyond 70 Years

Star Micronics celebrated its 70th anniversary in July 2020. I would like to take this opportunity to humbly express my sincere gratitude to all of our stakeholders for their support. Amid a global economy that is being hit hard by the novel coronavirus (COVID-19) pandemic, our current business performance is encountering difficult conditions. Looking ahead to the post-COVID era, however, we will continue to confront challenges toward sustainable growth. Among a host of endeavors, we will create new businesses, foster a new corporate culture, and develop global human resources.

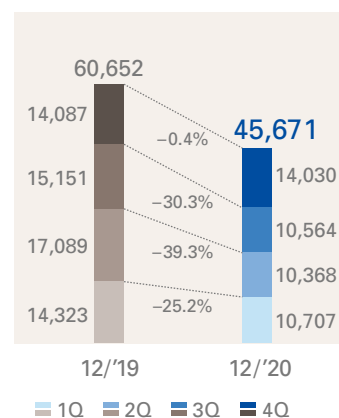
1

Operating Results in 2020

In 2020, Star Micronics reported sales of ¥45,671 million and operating income of ¥2,173 million, while net income attributable to owners of the parent amounted to ¥1,732 million.

Impacted by the COVID-19 pandemic, our mainstay Machine Tools Segment saw substantial declines in sales in all markets in the first quarter. Thereafter, economic activity resumed quickly in China, and demand recovered from the second quarter. In other markets, demand recovered moderately from the third quarter onward, driven by the resumption of economic activity and the Chinese automobile industry, but decreased significantly in comparison with the previous year. In the Special Products Segment, POS-related demand fell sharply, but the extent of the decline was kept in check, underpinned by the sharp increase in demand for food delivery in the United States due to the effects of people refraining from going out. In the Precision Products Segment, sales fell sharply due to sluggish sales at wristwatch makers.

NET SALES
(Millions of yen, %)



2

Market Environment in the Machine Tools Segment

With regard to the global economy going forward, although the spread of COVID-19 vaccines and additional economic measures are expected in each country, there are causes for concern—such as the impact on the economy due to the spread of COVID-19 virus variants, trends in the policies of the new U.S. administration, and the UK's withdrawal from the European Union—and the outlook is expected to remain uncertain. Under these circumstances, I would like to explain the global market environment as of the end of the fiscal year under review and the outlook for the following fiscal year in our mainstay Machine Tools Segment.

In China, which is our largest market, economic activity has resumed quickly, and demand is recovering mainly in the telecommunications- and automobile-related fields. Capital investment related to telecommunications in particular remains at a high level, and we expect that the introduction of telecommunications equipment, including the high-speed 5G communication standard, will continue to expand in the following fiscal year too.

In Europe, the automobile industry has fallen sharply due to the spread of COVID-19 infections and the economic downturn caused by the UK's withdrawal from the European Union. On a positive note, signs of a recovery have been seen from the third quarter onward. The future is expected to be uncertain in the following fiscal year as well, but demand for capital investment related to the automobile industry and telecommunications is expected to recover due to a variety of factors including recovery of the Chinese market and the progress automobile manufacturers are making with EVs, spurred by the need to remain in compliance with exhaust gas regulations toward the realization of a carbon-free society.

In the United States, where the COVID-19 pandemic has been the most serious, market conditions have been sluggish due to the effects of severely restricted economic activity, but the trend of a gradual recovery has continued from the third quarter onward. Although there are concerns about the impact on the economy, depending on the trends in the policies of the new administration, it is expected that the recovery will be centered on the medical field in the following fiscal year as well.

Even in Japan, where the number of those infected is relatively low, demand has been on a recovery trend since the third quarter, mainly in the automobile industry. Despite some uncertainties, such as the impact of the declaration of a second state of emergency and the shortage of semiconductor supplies, we expect demand to pick up further in the following fiscal year.



3

Outlook for the Following Fiscal Year

With regard to the consolidated business results for the following fiscal year, sales in our mainstay Machine Tools Segment are expected to increase because, as mentioned above, demand for automobiles is expected to recover not only in the Chinese market, where strong capital investment demand is expected for 5G base stations, but also in the domestic and European markets. In terms of production, we will continue to increase production capacity at our Dalian plant and our factory in Thailand. We will also work to further expand IoT services, such as remote services, for which demand has become apparent due to the COVID-19 pandemic.

In our Special Products Segment’s major fields of activity, which are the food and beverage and retail industries, cashless payments to help prevent infections and food delivery due to people refraining from going out are rapidly becoming widespread. We will focus on launching high-value-added products for these new markets to improve profitability and reorganize the European sales system after the UK has withdrawn from the European Union. In terms of production, following on from China and Malaysia, we will gradually shift the production of our mainstay products to Vietnam to reduce costs and strengthen our supply system.

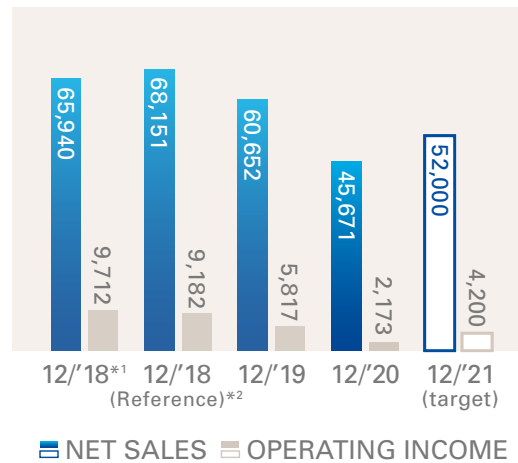
Based on the above, the outlook for consolidated financial results in the following fiscal year is sound. In specific terms, sales are projected to reach ¥52 billion, up 13.9% compared with the fiscal year under review. On the earnings front, operating income is forecast to surge 93.3%, to ¥4.2 billion, and net income attributable to owners of the parent to climb 90.6% to ¥3.3 billion.

With regard to the next Medium-Term Management Plan, since it is difficult to make a rational calculation due to the COVID-19 pandemic, we will postpone its announcement at this stage and make an announcement after further evaluating the business environment and management issues.

*1. The consolidated fiscal period for the fiscal period ended December 31, 2018 is based on and presented for a 10-month period for the Company and consolidated subsidiaries in Japan and a 12-month period for overseas consolidated subsidiaries.
 *2. 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).

NET SALES AND OPERATING INCOME

(Millions of yen)



4

Completion of the Solution Center

In July 2020, we opened a Solution Center on the premises of the Kikugawa Factory, which is a Machine Tools Segment base. In addition to being a technical showroom where the main products are always on display and customers can have products explained to them while looking at an actual machine, the Solution Center is a sales promotion facility equipped with evaluation test rooms where rigorous environmental tests can be conducted, and a conference room where technical seminars and online conferences can be held. By utilizing the facility's digital environment, such as the holding of a private online virtual show at the end of 2020, we will provide a full range of before- and after-sales services to customers around the world.

Please refer to following for a video introducing the Solution Center.

URL : <https://m.youtube.com/watch?v=ZrhXF8qKPpk&feature=youtu.be>



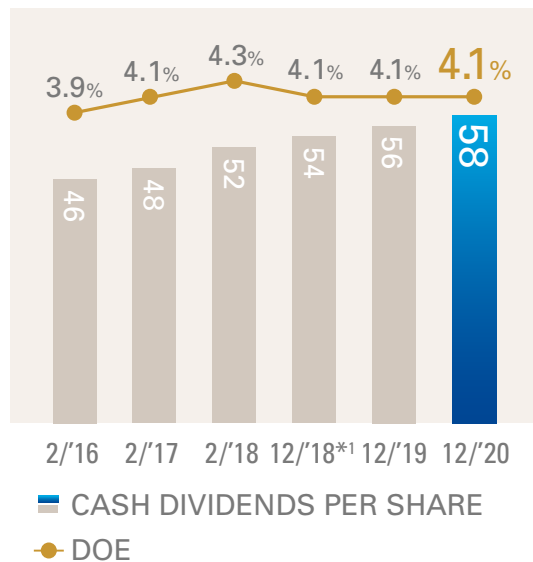
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Corporate Governance and Shareholder Returns

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

CASH DIVIDENDS PER SHARE AND DOE

(Yen, %)



Star Micronics positions the return and distribution of profits to stakeholders as an important management priority. The Company's basic policy is to take into consideration the consolidated shareholders' dividend on equity (DOE) ratio based on a consolidated total payout ratio of at least 50%, including the repurchase of its own shares. Based on this policy, we decided to pay a fiscal period-end dividend of ¥30 per share at the end of the year under review. As a result, including the ¥28 interim dividend, the annual dividend for the year increased by ¥2 compared with the previous year, to ¥58. We are planning to pay a dividend of ¥58 for the following fiscal year (¥29 for each of the interim and year-end dividends).

As we work toward achieving our established goals, we kindly request the continued support and understanding of all stakeholders.

March 2021

Mamoru Sato

Representative Director,
President and CEO

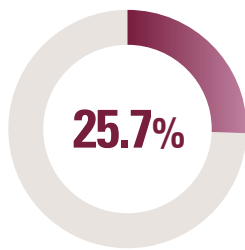
Special Products



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 been expanding. mPOS products are available under the mCollection™ brand, which not only includes printers but also such peripheral devices as cash drawers and communication devices.

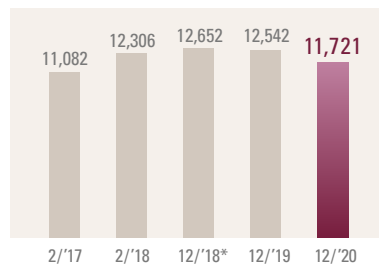
SPECIAL PRODUCTS

SALES BY SEGMENT



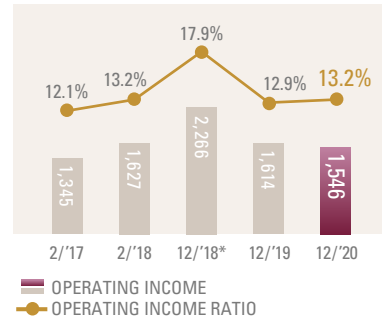
NET SALES

(Millions of yen)



OPERATING INCOME & OPERATING INCOME RATIO

(Millions of yen, %)



Business Environment and Results in 2020

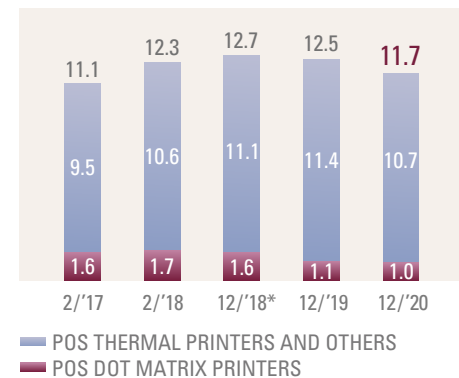
In 2020, demand for POS printers was sluggish due to the impact of the COVID-19 pandemic. Owing to weak market conditions, sales experienced a decline in Europe. On the domestic front, sales decreased as a result of negative corrections made to the special demand in response to the application of a reduced tax rate during the previous year. In the U.S. market, sales increased on the back of favorable food delivery trends, a new demand category that was triggered by the COVID-19 pandemic.

As a result, sales in the Special Products Segment declined 6.6% compared with the previous year, to ¥11,721 million (US\$112,702 thousand). From a profit perspective, operating income fell 4.2% year on year, to ¥1,546 million (US\$14,865 thousand).

* 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.

SALES IN THE SPECIAL PRODUCTS SEGMENT

(Billions of yen)



Outlook for 2021 and Business Strategies



POS printer mC-Print3

Despite little or no indication that COVID-19 is coming to an end, Star Micronics will continue to channel its energies toward capturing food delivery demand mainly in the U.S. market throughout 2021. At the same time, the Company will work diligently to improve profitability by focusing on the launch of high value-added products as a part of efforts to expand into other markets. As far as the European market is concerned, steps will be taken to reorganize the sales structure in Europe in anticipation of the U.K.'s withdrawal from the European Union.

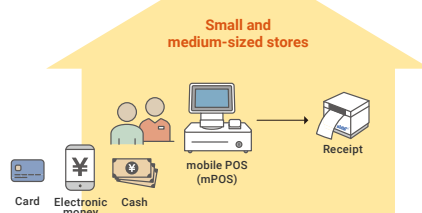
From a business results perspective, net sales are projected to come in at ¥11,720 million, unchanged from the year under review. On the earnings front, operating income is forecast to climb 8.7% year on year, to ¥1,680 million.

Sales Volume of POS Printers by Region

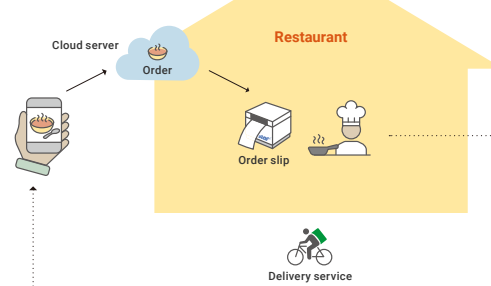
(Thousands of units)

	2019	2020	Change
The Americas	244	263	7.8%
Europe	156	128	-17.9%
Asia	48	45	-6.3%
Japan	103	58	-43.7%
Total	551	495	-10.2%

mobile POS (mPOS)



Food delivery



Launch of a new linerless label printer

Star Micronics has newly released the TSP650IISK linerless label printer, a derivative model of the TSP650II thermal receipt printer. As a product that can easily accommodate linerless label paper, the TSP650IISK is ideal for use in the food delivery service, where demand is increasing due to the spread of the COVID-19 pandemic. In the case of ordinary label paper, print data is on a sticker-like label that is attached to a backing paper. Linerless labels have no backing, and the label itself is rolled like a tape. Eliminating both the need to remove the label after printing and disposal of the backing paper the TSP650IISK incorporates an environmentally friendly design. With the high demand for order label printing in the rapidly growing food delivery service, we aim to further expand our share of this market.



TSP650IISK

Machine Tools

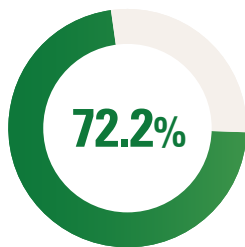


CNC automatic lathe video
<https://youtu.be/5eJjAH6Z2vA>

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.

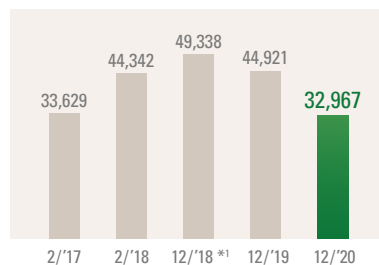
MACHINE TOOLS

SALES BY SEGMENT



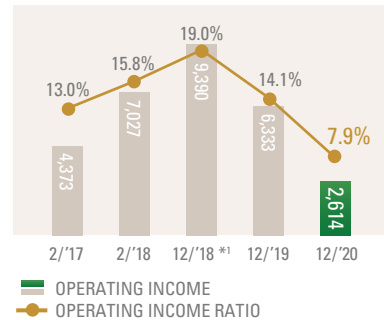
NET SALES

(Millions of yen)



OPERATING INCOME & OPERATING INCOME RATIO

(Millions of yen, %)



Business Environment and Results in 2020

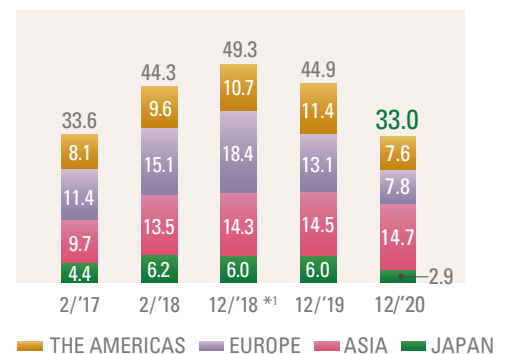
Impacted by the spread of the COVID-19 pandemic, sales activities were restricted in the U.S. market. Due to these and other factors, sales declined substantially in 2020. Despite the initial signs of a recovery in sales to the sluggish automobile market in the latter half of the year, sales also fell significantly in the European and domestic markets. In the Asian market, demand was quick to recover in China. As a result, sales were on a par with the previous year. Over and above the aforementioned, Star Micronics took advantage of the Solution Center completed in July 2020 and worked diligently to upgrade and expand its online before- and after-sales services.

Accounting for these factors, net sales in the Machine Tools Segment fell 26.6% compared with the previous year, to ¥32,967 million (US\$316,990 thousand) while operating income dropped 58.7% year on year, to ¥2,614 million (US\$25,135 thousand).

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

MACHINE TOOLS SEGMENT SALES BY GEOGRAPHICAL REGION

(Billions of yen)



Outlook for 2021 and Business Strategies



CNC Swiss-Type
Automatic Lathe SX-38 Type B

Despite the ongoing and considerable effects of the COVID-19 pandemic and continued uncertainty surrounding future conditions, demand for capital expenditure is projected to be strong in the China and other markets as China as well as in Japan and Europe in the automobile and telecommunications fields. In light of these factors, net sales are forecast to increase.

With significant growth in sales volume over the past few years, China has become an extremely important market for the Star Micronics Group. In the future, the Company will strengthen its production systems in this market. Particular emphasis will be placed on making full use of the Solution Center and to enhance before- and after-sales services in an effort to increase sales.

As far as business results are concerned, net sales in the Machine Tools Segment are forecast to climb 18.6% compared with the year under review, to ¥40,280 million. Operating income is anticipated to surge 63.9% year on year, to ¥4,420 million.*2

*2 The Precision Products Segment has been included in this segment effective from 2021.

Held an online private show at the Solution Center

An exhibition hall was established online and broadcast over a two-day period on December 10 and 11, 2020 as a virtual private show. This was the Company's first attempt at staging an event on a specially designed website and the initial step toward a new initiative.

In a well-packed program that harnessed the distinguishing features of an online channel, the exhibition allowed us to field a host of chat-based inquiries and broadcast details of a seminar using actual SB-16III, SX-38. In providing users with a genuine sense of touring the Solution Center in person, the promotional video using a 360° camera was especially well received.

Looking ahead, we will continue to hold online technical seminars and other events while upgrading and expanding programs that are of interest to customers.



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.

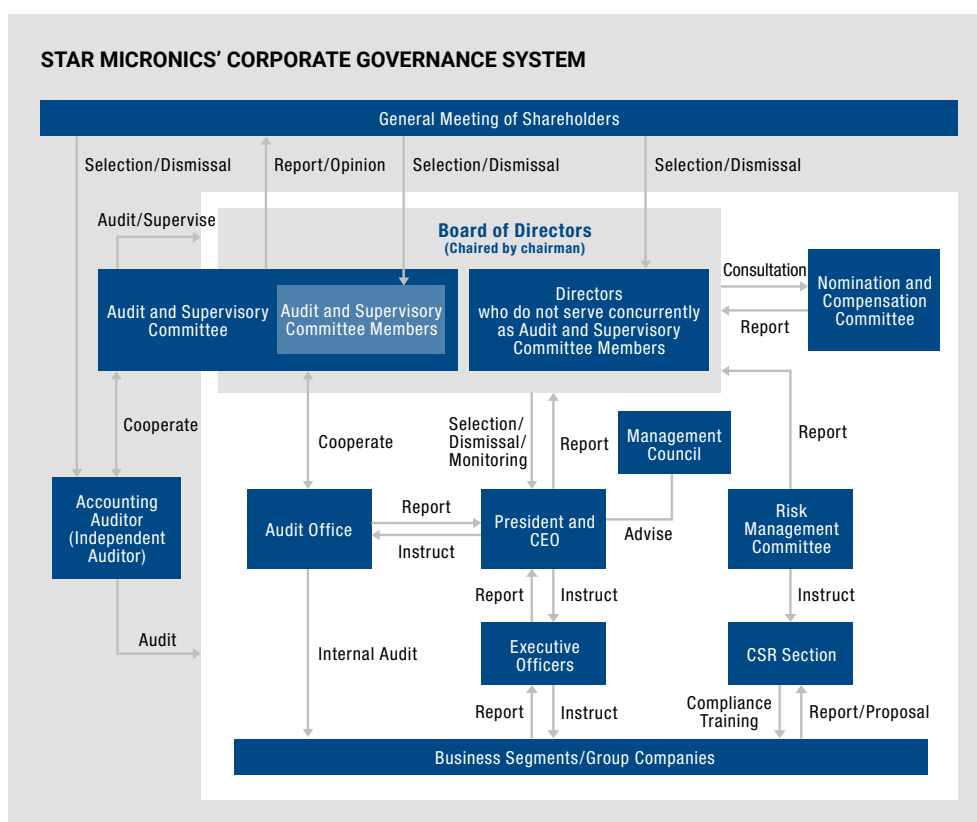
Star Micronics has adopted the structure of a company with an audit and supervisory committee in order to strengthen the supervisory function of its Board of Directors and to enhance its corporate governance capabilities.

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

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

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

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



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 on a fixed basis, a yearly bonus as a performance-based compensation and stock compensation provided as a medium- to long-term incentive. In view of the tasks that they are asked to perform, Directors who concurrently serve as Audit and Supervisory Committee Members and Outside Directors receive only the basic compensation.

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

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

The total amount of bonuses paid to Directors is calculated by multiplying profit attributable to owners of the parent by a payment rate determined by the Company so as to function as an incentive to improve business performance. The amount of each bonus paid to individual Directors (excluding Directors who concurrently serve as Audit and Supervisory Committee Members and Outside Directors) shall be determined in line with the status and position of each Director based on the calculation method determined by the Board of Directors. After consulting with the Nomination and Compensation Committee, an arbitrary advisory body that is comprised of a majority of independent Outside Directors, and in line with the Committee's report, the Company resolved that the payment of directors' bonuses fell within the scope of performance-based compensation stipulated under Article 34, Paragraph 1.3 of Japan's Corporation Tax Act at a Board of Directors' meeting held on March 25, 2021.

Turning to the matter of stock compensation, the amount of allocation to each Director (excluding Directors who serve as Audit and Supervisory Committee Members as well as Outside Directors) 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 (excluding Directors who serve as Audit and Supervisory Committee Members as well as Outside Directors) as determined by a resolution of the Board of Directors.

Meanwhile, at its 96th Ordinary General Meeting of Shareholders held on March 25, 2021, Star Micronics resolved to introduce a new compensation plan to allocate restricted stock totaling no more than ¥80 million per year in place of the granting of SARs as stock compensation-type stock options under its current stock option compensation for Directors of the Company (excluding Directors who serve as Audit and Supervisory Committee Members as well as Outside Directors) as an incentive to improve the Company's corporate value on a sustainable basis and to further promote shared value with its shareholders. With the introduction of this plan, stock compensation-type stock options will be abolished, except for those that have already been granted. However, the Company resolved on the same day that it would continue ordinary type stock options and that SARs for the said stock options shall be allotted to Directors of the Company (excluding Directors who serve as Audit and Supervisory Committee Members as well as Outside Directors) in an annual amount not exceeding ¥20 million.

Breakdown of Compensation of Directors and Audit and Supervisory Committee Members

Director rank	Total compensation, etc. (¥ million)	Total compensation by category (¥ million)			Headcount of those eligible
		Fixed compensation	Performance-based compensation	Stock options	
Directors (excluding Audit and Supervisory Committee Members) (excluding Outside Directors)	194	131	17	45	4
Audit and Supervisory Committee Members (excluding Outside Directors)	—	—	—	—	—
Outside directors and Audit and Supervisory Committee Members	26	26	—	—	5

Notes:

- The figures for "Stock options" and "Bonus" are the monetary amounts recorded as expenses in the fiscal year under review.
- The aforementioned amount of Director compensation does not include salaries paid to Directors who are also employees of the Company.
- Star Micronics is scheduled to pay ¥55 million in total to one Director of the Board upon their retirement. These payments are for severance of a retirement benefit allowance for Directors that was discontinued pursuant to a resolution of the Ordinary General Meeting of Shareholders for the 82nd Period held on May 24, 2007. Moreover, retirement benefits of ¥2 million were paid to one Director who retired at the conclusion of the 95th Ordinary General Meeting of Shareholders held on March 26, 2020.

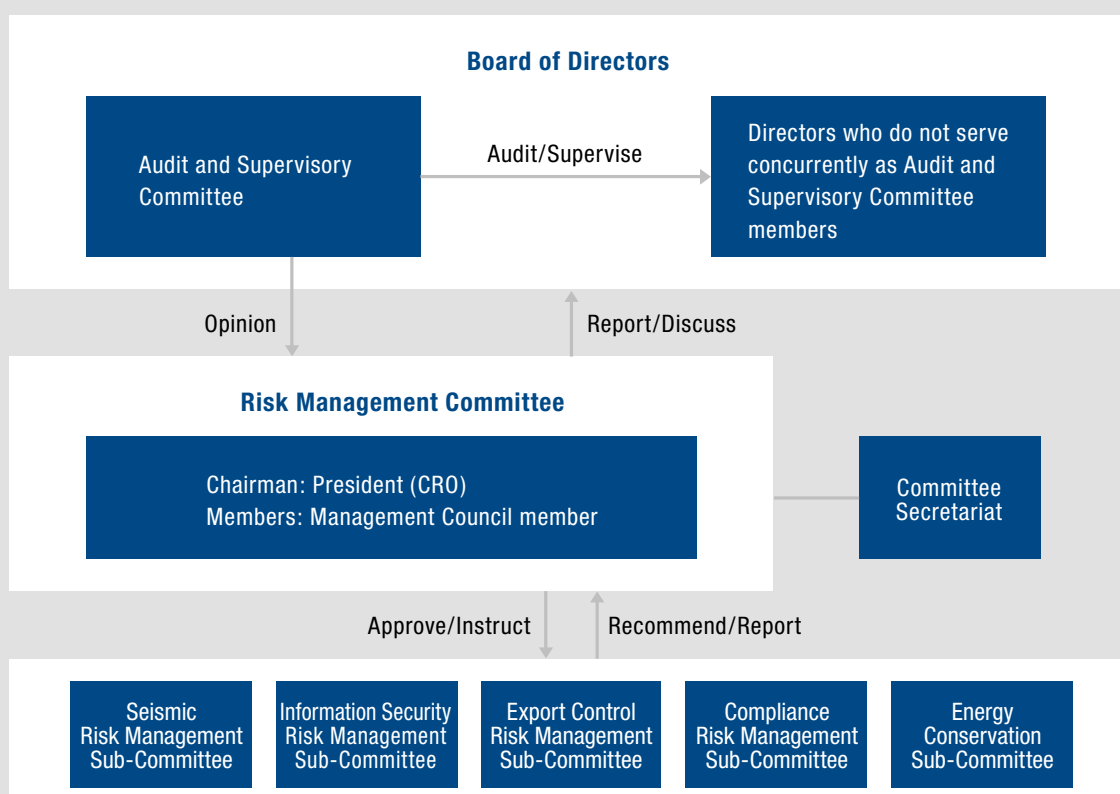
Internal Control System

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. 2020	Dec. 2019	Dec. 2018
For the year:			
Net sales	¥45,671	¥60,652	¥65,940
Cost of sales	30,349	38,330	40,478
Selling, general and administrative expenses	13,149	16,505	15,750
Operating income	2,173	5,817	9,712
Other income (expenses) – net	715	(485)	(1,029)
Income before income taxes	2,888	5,332	8,683
Income taxes	1,131	1,486	1,764
Net income (loss) attributable to noncontrolling interests	25	(208)	124
Net income attributable to owners of the parent	1,732	4,054	6,795
Net cash provided by operating activities	6,843	5,124	6,089
Net cash (used in) provided by investing activities	(1,253)	(3,150)	(2,950)
Free cash flows	5,590	1,974	3,139
Net cash (used in) provided by financing activities	(2,136)	(3,015)	(3,766)
Per share:			
Basic net income	¥ 49.07	¥113.72	¥186.04
Diluted net income	42.46	99.34	163.42
Cash dividends applicable to the year	58.00	56.00	54.00
At year-end:			
Current assets	¥54,893	¥56,830	¥59,914
Net property, plant and equipment	14,272	15,542	15,521
Total assets	71,622	76,394	79,935
Long-term liabilities	1,266	9,675	10,046
Total equity	49,822	50,790	49,312
Stock exchange price per share of common stock:			
Highest	¥1,720	¥1,893	¥2,270
Lowest	945	1,258	1,332
Selected financial indicators:			
Equity ratio (%)	68.2	65.2	60.3
Return on equity (%)	3.5	8.3	14.3
Dividend payout ratio (%)	118.2	49.2	29.0
Dividend on equity (%)	4.1	4.1	4.1

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

Millions of yen (Except for per share data)

Feb. 2018	Feb. 2017	Feb. 2016	Feb. 2015	Feb. 2014	Feb. 2013	Feb. 2012	Feb. 2011
¥60,773	¥48,937	¥54,458	¥50,958	¥43,482	¥37,858	¥41,654	¥35,718
38,511	30,825	33,558	31,355	28,047	24,683	25,753	23,265
16,052	14,505	15,165	14,126	12,829	11,595	11,948	11,024
6,210	3,607	5,735	5,477	2,606	1,580	3,953	1,429
149	224	(383)	605	40	2,140	(724)	(1,069)
6,359	3,831	5,352	6,082	2,646	3,720	3,229	360
487	572	1,530	1,285	1,400	1,330	717	107
91	78	101	101	103	90	85	92
5,781	3,181	3,721	4,696	1,143	2,300	2,427	161
8,923	5,338	3,107	4,326	2,597	483	4,466	3,520
(5,013)	813	(1,074)	(2,501)	(2,455)	(1,908)	(393)	(1,518)
3,910	6,151	2,033	1,825	142	(1,425)	4,073	2,002
(2,926)	139	(2,180)	(1,568)	(1,394)	(1,202)	(2,092)	(1,813)
¥155.68	¥ 81.77	¥ 87.98	¥111.36	¥ 27.17	¥ 54.66	¥ 56.94	¥ 3.71
136.90	74.69	87.69	111.05	27.14			
52.00	48.00	46.00	44.00	34.00	30.00	26.00	22.00
¥59,635	¥53,172	¥50,367	¥50,533	¥41,233	¥35,827	¥38,302	¥34,836
14,076	12,926	14,360	15,309	14,327	13,476	10,289	10,549
77,363	68,351	67,828	70,261	59,303	52,564	51,925	49,250
9,697	9,935	2,021	617	524	303	407	423
47,447	43,755	50,200	51,903	45,698	40,710	36,980	37,096
Yen							
¥2,480	¥1,770	¥2,238	¥1,885	¥1,422	¥988	¥958	¥1,182
1,588	1,023	1,125	1,115	857	647	657	702
60.1	62.8	72.7	72.4	75.5	76.1	70.2	73.9
12.9	6.9	7.4	9.8	2.7	6.0	6.7	0.4
33.4	58.7	52.3	39.5	125.1	54.9	45.7	593.0
4.3	4.1	3.9	3.9	3.4	3.3	3.0	2.5

Management's Discussion and Analysis

OVERVIEW (Years ended December 31, 2020 and 2019)

Business Environment

In 2020, economic conditions deteriorated significantly owing to the spread of COVID-19 worldwide, which restricted economic activity. In Asia, economic activity resumed earliest in China and the economic recovery progressed. Despite signs of a positive turnaround in the U.S. and Europe, overall trends remained sluggish. In Japan, although the economy recovered to a certain degree, it was generally weak.

Net Sales

			<small>(Millions of yen)</small>
	2019	2020	Change (%)
	¥60,652	¥45,671	(24.7)

In the Company's major related market, although exhibiting a recovery trend in the second half, demand fell sharply mainly in the first half due to the spread of COVID-19. While POS-related demand in the U.S. market was relatively firm, demand in other markets declined substantially. Notwithstanding an ongoing pickup in China, demand in the mainstay Machine Tools Segment also experienced a dramatic decline in other markets.

Operating Income

			<small>(Millions of yen)</small>
	2019	2020	Change (%)
	¥5,817	¥2,173	(62.6)

Operating income came in at ¥2,173 million owing mainly to the downturn in sales.

Net Income Attributable to Owners of the Parent

			<small>(Millions of yen)</small>
	2019	2020	Change (%)
	¥4,054	¥1,732	(57.3)

Net income attributable to owners of the parent amounted to ¥1,732 million once again largely reflecting the drop in sales.

Cash Dividends per Share

			<small>(Yen)</small>
	2019	2020	Change (yen)
	¥56	¥58	¥2

The annual cash dividend for the year under review increased ¥2 per share compared with the previous fiscal year, to ¥58 per share.

Total Assets

			<small>(Millions of yen)</small>
	2019	2020	Change (%)
	¥76,394	¥71,622	(6.2)

Despite an increase in certain items including cash and cash equivalents, total assets as of the end of the fiscal year under review declined compared with the end of the previous fiscal year. This was mainly due to the decrease in inventories as well as property, plant and equipment.

Free Cash Flows

			<small>(Millions of yen)</small>
	2019	2020	Change (%)
	¥1,974	¥5,590	183.2

Free cash flows came in at ¥5,590 million owing to such factors as efforts to reduce inventories.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

			<small>(Millions of yen)</small>
	2019	2020	Change (%)
	¥3,067	¥1,908	(37.8)

Capital expenditures amounted to ¥1,908 million. This largely reflected maintenance and renewal expenses primarily in the Machine Tools Segment.

Net Sales by Region

			<small>(Millions of yen)</small>
	2019	2020	Change (%)
Japan	¥10,628	¥ 5,754	(45.9)
USA	16,718	13,708	(18.0)
China	10,558	10,437	(1.1)
Others	22,748	15,772	(30.7)

INCOME ANALYSIS

Slowdown in the machine tools markets in Europe and Japan

In 2020, Star Micronics reported consolidated net sales of ¥45,671 million (US\$439,144 thousand), down ¥14,981 million, or 24.7%, compared with the previous fiscal year. Looking at the operating environment in 2020, economic conditions deteriorated significantly owing to the spread of COVID-19 worldwide, which restricted economic activity. In Asia, economic activity resumed earliest in China and the economic recovery progressed. Despite signs of a positive turnaround in the U.S. and Europe, overall trends remained sluggish. In Japan, although the economy recovered to a certain degree, it was generally weak. Under these circumstances, although exhibiting a recovery trend in the second half, demand fell sharply mainly in the first half in each of the major markets in which the Star Micronics Group operates largely due to the spread of COVID-19. While POS-related demand in the U.S. market was relatively firm, demand in other markets declined substantially. Notwithstanding an ongoing pickup in China, demand in the mainstay Machine Tools Segment also experienced a dramatic decline in other markets.

The cost of sales came to ¥30,349 million (US\$291,817 thousand), a decrease of ¥7,981 million, or 20.8%, compared with the previous fiscal year. On this basis, gross profit declined ¥7,000 million, or 31.4%, year on year, to ¥15,322 million (US\$147,327 thousand).

Selling, general and administrative (SG&A) expenses were ¥13,149 million (US\$126,433 thousand), down ¥3,356 million, or 20.3%.

Taking into account each of the aforementioned factors, operating income declined ¥3,644 million, or 62.6%, year on year, to ¥2,173 million (US\$20,894 thousand). The operating income ratio declined 4.8 percentage points compared with the previous fiscal year, to 4.8%.

Improvement in other income and expenses on a net basis

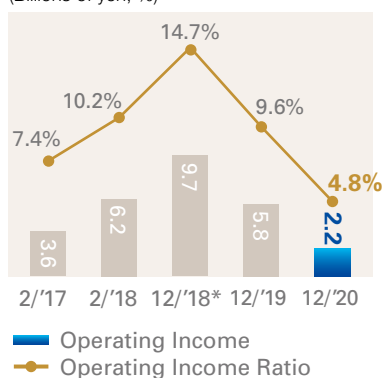
In 2020, Star Micronics reported other income – net of ¥715 million (US\$6,875 thousand) compared with other expenses – net of ¥485 million in the previous fiscal year. Other expenses – net in 2019 largely reflected the posting of business restructuring expenses related to the Precision Products Segment of ¥689 million. In the fiscal year under review, Star Micronics benefitted from a foreign exchange gain – net of ¥266 million (US\$2,558 thousand).

Based on aforementioned and movements in other accounting line items, income before income taxes amounted to ¥2,888 million (US\$27,769 thousand), a decrease of ¥2,444 million, or 45.8%, compared with the previous fiscal year. Net income attributable to owners of the parent after deducting income taxes and net income attributable to noncontrolling interests came to ¥1,732 million (US\$16,654 thousand), a downturn of 2,322 million, or 57.3%, year on year.

Basic net income per share was ¥49.07 (US\$0.47) and diluted net income per share was ¥42.46 (US\$0.41).

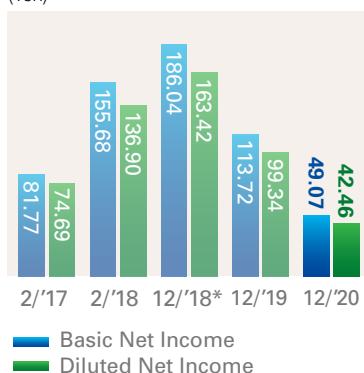
Operating Income and Operating Income Ratio

(Billions of yen, %)



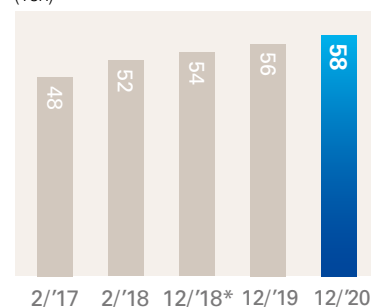
Net Income per Share

(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 tenth consecutive year climbing ¥2 per share year on year, to ¥58 per share

The annual cash dividend for 2020 increased for a tenth consecutive year climbing ¥2 per share year on year, to ¥58 (US\$0.56). The dividend on equity (DOE) came in at 4.1% and the total consolidated payout ratio was 118.2%. Moving forward, Star Micronics is looking to pay an interim and year-end dividend of ¥29 for an annual cash dividend of ¥58 for 2021, unchanged from the fiscal year under review.

As far as its policy toward the payment of dividends is concerned, the Company aims 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 allocates 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 is working to enhance its corporate value and improve shareholder returns.

FINANCIAL POSITION & LIQUIDITY

Overall decrease in assets including a downturn in inventories

Total current assets as of December 31, 2020 stood at ¥54,893 million (US\$527,817 thousand), a decrease of 3.4%, or ¥1,937 million compared with the end of the previous fiscal year. While the balance of cash and cash equivalents climbed 16.3%, or ¥3,222 million year on year, to ¥23,029 million (US\$221,433 thousand), the decrease in current assets largely reflected the lower balance of inventories, which declined 29.9%, or ¥6,015 million, to ¥14,124 million (US\$135,807 thousand).

Net property, plant and equipment fell 8.2%, or ¥1,270 million compared with the end of the previous fiscal year, to ¥14,272 million (US\$137,231 thousand).

The balance of investments and other assets decreased 38.9%, or ¥1,565 million year on year, to ¥2,457 million (US\$23,625 thousand). This downturn was mainly due to declines in the balances of investment securities, which fell 65.0%, or ¥1,283 million, to ¥691 million (US\$6,644 thousand), and deferred tax assets, which declined 19.1%, or ¥176 million, to ¥747 million (US\$7,183 thousand).

Accounting for each of these factors, the balance of total assets as of the end of fiscal year under review contracted 6.2%, or ¥4,772 million compared with the balance as of December 31, 2019, to ¥71,622 million (US\$688,673 thousand).

Plans to redeem convertible bonds in June 2021

Total current liabilities stood at ¥20,534 million (US\$197,442 thousand) as of December 31, 2020, a decline of 28.9%, or ¥4,605 million compared with the end of the previous fiscal year. The balance of payables fell 24.2%, or ¥2,392 million year on year, to ¥7,498 million (US\$72,096 thousand). For accounting purposes, convertible bonds were posted as current liabilities due to their planned redemption in June 2021.

Total long-term liabilities came to ¥1,266 million (US\$12,173 thousand) as of December 31, 2020. This was 86.9%, or ¥8,409 million lower than the balance of as the end of previous fiscal year. In addition to the aforementioned convertible bonds, the principal movement in long-term liabilities was a drop of 23.4%, or ¥216 million, to ¥707 million (US\$6,798 thousand) in the balance of liability for retirement benefits.

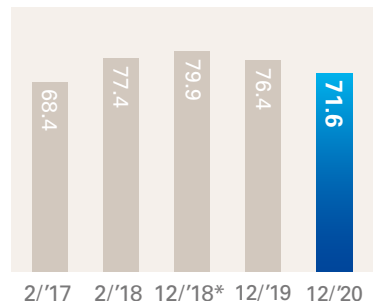
Decrease in equity owing to a decline in retained earnings

Total equity decreased 1.9%, or ¥968 million, compared with the end of the previous fiscal year, to ¥49,822 million (US\$479,058 thousand). The leading factors behind this downturn in total equity were movements in retained earnings, which edged down 0.6%, or ¥243 million, to ¥38,298 million (US\$368,250 thousand), and foreign currency translation adjustments, which fell 30.4%, or ¥781 million, to ¥3,352 million (US\$32,231 thousand).

Owing to the decrease in total assets, the equity ratio came in at 68.2%, an improvement of 3.0 percentage points compared with the end of the previous fiscal year. Equity per share as of the end of the fiscal year under review declined ¥30.09 year on year, to ¥1,383.41 (US\$13.30).

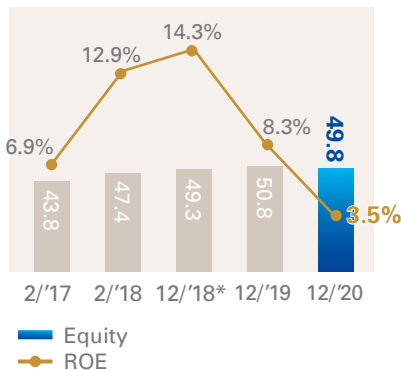
Total Assets

(Billions of yen)



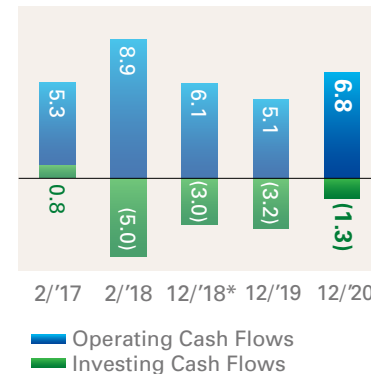
Equity and Return on Equity

(Billions of yen, %)



Cash Flows

(Billions of yen)



CASH FLOWS

Continued high level of cash dividends on the back of an increase in free cash flow

Net cash provided by operating activities came to ¥6,843 million (US\$65,798 thousand). The principal cash inflows came from income before income taxes of ¥2,888 million (US\$27,769 thousand), depreciation and amortization of ¥2,255 million (US\$21,683 thousand), and a decrease in inventories of ¥5,832 million (US\$56,077 thousand), which more than offset such cash outflows as income taxes – paid of ¥1,639 million (US\$15,760 thousand) and the decrease in trade payables of ¥1,463 million (US\$14,067 thousand).

Net cash used in investing activities totaled ¥1,253 million (US\$12,048 thousand). The major cash inflow reflected proceeds from sale of property, plant and equipment of ¥1,092 million (US\$10,510 thousand). The principal cash outflows were due to purchases of property, plant and equipment of ¥1,955 million (US\$18,798 thousand) and the increase in short-term investments of ¥600 million (US\$5,769 thousand).

Net cash used in financing activities amounted to ¥2,136 million (US\$20,538 thousand). This largely reflected dividends paid of ¥1,977 million (US\$19,010 thousand).

Taking into account the aforementioned activities as well as negative foreign currency translation adjustments of ¥232 million (US\$2,231 thousand) and the net increase in cash and cash equivalents of ¥3,222 million (US\$30,981 thousand), cash and cash equivalents stood at ¥23,029 million (US\$221,433 thousand) as of December 31, 2020.

CAPITAL EXPENDITURES AND R&D EXPENSES

Investment in the Machine Tools Solution Center in 2020

In 2020, capital expenditures, which totaled ¥1,908 million (US\$18,346 thousand), were largely directed toward the Solution Center at the Company's Kikugawa Factory in the Machine Tools Segment. In 2021, Star Micronics plans to undertake capital expenditures of ¥2,260 million focusing mainly on maintenance and renewal work in the Machine Tools Segment.

Special Products—Capital expenditures in the Special Products Segment decreased ¥223 million compared with the previous fiscal year, to ¥111 million (US\$1,067 thousand), in 2020. In 2021, the Company is budgeting expenditures of ¥252 million in this segment mostly for molds used in the manufacture of new products.

Machine Tools—Capital expenditures in the Machine Tools Segment declined ¥730 million compared with the previous fiscal year, to ¥1,560 million (US\$15,000 thousand), in 2020. In 2021, the Company is looking to undertake expenditures of ¥1,854 million in such areas as equipment and facilities maintenance and renewal.

New products development in each segment

Underpinned by its precision processing and assembly technologies nurtured over a long period, the Star Micronics Group undertakes research and development activities 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.

The principal results of research and development undertaken during the fiscal year under review were as follows, with total research and development expenses totaling ¥1,470 million.

Special Products Segment—In the fiscal year under review, Star Micronics developed software that also allows Android devices and Windows tablets to use SteadyLAN™, a solution that enables both fast charge of tablets and printing as well as wired connection to the Internet via printers, which was previously available only with iOS devices. Taking advantage of this initiative, the Company commenced sales of a receipt printer in the mC-Print thermal printer series equipped with a USB-C port that supports USB-C Power Delivery, thereby making the same function available to all major terminals used in the mPOS market.

In addition, mC-Bridge™, a device that was released during the previous fiscal year, can be installed in automatic change machines and was previously only available for iOS devices, was additionally released for Android devices in the fiscal year under review enabling control from more devices. Once again making the most of this initiative, Star Micronics will work diligently to further increase its share in the mPOS market.

The Company also developed the TSP654IISK linerless label printer for the food delivery sector, where demand is increasing due to the spread of COVID-19.

This product is equipped with a paper detection sensor that detects when an order label has been removed, allowing for efficient use of continuously printed labels without sticking. Furthermore, through the use of linerless label paper without a backing, order labels can be printed with an unlimited number of characters. This in turn leads to a reduction in paper usage and contributes to cost savings in store operations.

Research and development expenses for the Special Products Segment totaled ¥695 million.

Machine Tools Segment—Star Micronics developed and commenced sales of various new products including SX-38 and SB-16III in the fiscal year under review.

SX-38 is a high-end sliding head-type automatic lathe that is capable of machining up to 38 mm in diameter. Developed as the successor of SV-38R, the current high-functioning model, SX-38 mainly targets the medical, automotive and aviation-related markets. In addition to bolstering complex machining capabilities by placing a gang-type tool post with a B-axis and a turret-type tool post facing each other, the slant bed design reduces the distance from the front side of the machine to each spindle and tool post, which improves operability and workability. From a control system perspective, SX-38 incorporates the Star Motion Control System as a standard feature, which dramatically reduces idle time by optimizing axis movement. Two different versions of turret-type tool post are also available. Type A, a quick-change version with a clamp mechanism that enables quick and easy attachment/detachment of the tool unit; and Type B, a version of the Company's one-position tool driving system that improves the service life of the tool unit by suppressing excessive heat. Star Micronics has already received numerous orders while also garnering praise from users.

SB-16III has been designed to reduce the footprint of the machine with selected functionalities of the Company's best-selling "SB Series" Swiss-Type Automatic Lathe. Aiming to serve the machining of workpieces for automotive, information communication and other devices mainly in the Japanese and Asian markets, SB-16III is attracting volume orders as a replacement for the current model.

As far as software is concerned, the machine operation monitoring application Star Monitoring & Operator Support System (SMOOSS-i), which was launched in 2018, has been upgraded with additional functions that address the requests of users of pre-existing systems. Moving forward, Star Micronics is endeavoring to further upgrade and expand functions in a bid to increase operator convenience.

Moreover, the Company is actively working to comply with the Restriction of Hazardous Substances (RoHS) and RoHS2 directives for the components that it consumes as a part of its environmental endeavors. In pushing forward environmental measures, Star Micronics has also put in

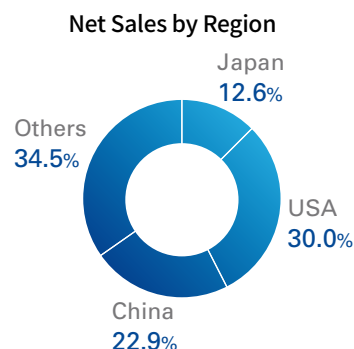
place its own Star Environmental Standards, and labels those models that satisfy these standards with an ECO mark. Among a host of other initiatives, the Company also works to improve the ratio of components it consumes

that are RoHS compliant and promotes the powder coating of sheet-metal parts.

Research and development expenses for the Machine Tools Segment amounted to ¥774 million.

SALES FRAMEWORK AND NET SALES BY REGION

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



	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.

Increase in the ratio of overseas sales especially in China

In the fiscal year under review, the ratio of overseas sales as a proportion of total sales came to 87.4%, up 4.9 percentage points compared with the previous fiscal year.

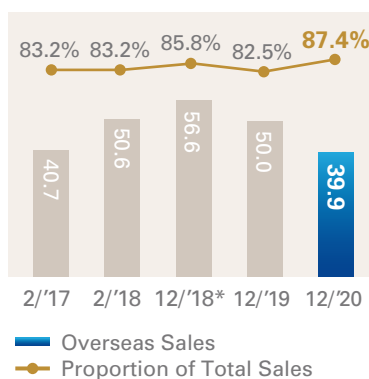
By region, net sales in the U.S. amounted to ¥13,708 million (US\$131,807 thousand), a decrease of 18.0%, or ¥3,010 million.

Net sales in China came to ¥10,437 million (US\$100,356 thousand), a downturn of 1.1%, or ¥121 million.

In Japan, net sales totaled ¥5,754 million (US\$55,327 thousand), a drop of 45.9%, or ¥4,874 million.

Overseas Sales and Proportion of Total Sales

(Billions of yen, %)



Consolidated Balance Sheet

Star Micronics Co., Ltd. and Consolidated Subsidiaries
December 31, 2020

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Current assets:			
Cash and cash equivalents (Note 17)	¥ 23,029	¥ 19,807	\$ 221,433
Marketable securities (Notes 4 and 17)	1,896	500	18,231
Short-term investments (Notes 5 and 17)	338	351	3,250
Receivables (Notes 6 and 17):			
Trade notes and accounts receivable	14,241	14,324	136,932
Unconsolidated subsidiaries and associated companies	55	67	529
Other	1,025	1,421	9,856
Allowance for doubtful receivables	(109)	(112)	(1,048)
Inventories (Note 7)	14,124	20,139	135,807
Prepaid expenses and other	294	333	2,827
Total current assets	54,893	56,830	527,817
Property, plant and equipment (Note 8):			
Land	1,889	2,048	18,163
Buildings and structures	15,087	15,274	145,067
Machinery and equipment	20,073	22,471	193,010
Lease assets (Note 16)	159	170	1,529
Construction in progress	4	508	38
Other	893	894	8,587
Total	38,105	41,365	366,394
Accumulated depreciation	(23,833)	(25,823)	(229,163)
Net property, plant and equipment	14,272	15,542	137,231
Investments and other assets:			
Investment securities (Notes 4 and 17)	691	1,974	6,644
Investments in unconsolidated subsidiaries and associated companies	326	368	3,135
Deferred tax assets (Note 13)	747	923	7,183
Other assets	693	757	6,663
Total investments and other assets	2,457	4,022	23,625
Total	¥ 71,622	¥ 76,394	\$ 688,673

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Current liabilities:			
Payables (Note 17):			
Trade notes and accounts payable	¥ 5,775	¥ 7,251	\$ 55,529
Unconsolidated subsidiaries and associated companies	1	1	10
Other	1,722	2,638	16,557
Short-term bank loans (Notes 9 and 17)	2,500	2,500	24,038
Current portion of convertible bonds (Notes 9 and 17)	8,007		76,990
Current portion of long-term debt (Note 9)	166	179	1,596
Income taxes payable (Note 13)	370	709	3,558
Accrued expenses	695	769	6,683
Other	1,298	1,882	12,481
Total current liabilities	20,534	15,929	197,442
Long-term liabilities:			
Convertible bonds (Notes 9 and 17)		8,023	
Long-term debt (Note 9)	396	544	3,808
Liability for retirement benefits (Note 10)	707	923	6,798
Deferred tax liabilities (Note 13)	75	98	721
Other	88	87	846
Total long-term liabilities	1,266	9,675	12,173
Commitments and contingent liabilities (Note 16)			
Equity (Notes 11, 12 and 23):			
Common stock – authorized, 158,000,000 shares;			
issued, 45,091,334 shares in 2020 and 2019	12,722	12,722	122,327
Capital surplus	13,058	13,050	125,558
Stock acquisition rights (Note 12)	429	421	4,125
Retained earnings	38,298	38,541	368,250
Treasury stock – at cost,			
9,787,046 shares in 2020			
and 9,841,986 shares in 2019	(12,077)	(12,144)	(116,125)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	27	116	260
Foreign currency translation adjustments	(3,352)	(2,571)	(32,231)
Defined retirement benefit plans	164	112	1,577
Total	49,269	50,247	473,741
Noncontrolling interests	553	543	5,317
Total equity	49,822	50,790	479,058
Total	¥ 71,622	¥ 76,394	\$ 688,673

See notes to consolidated financial statements.

Consolidated Statement of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net sales	¥45,671	¥60,652	\$439,144
Cost of sales (Note 10)	30,349	38,330	291,817
Gross profit	15,322	22,322	147,327
Selling, general and administrative expenses (Notes 10 and 14)	13,149	16,505	126,433
Operating income	2,173	5,817	20,894
Other income (expenses):			
Interest and dividend income	178	216	1,711
Interest expense	(20)	(16)	(192)
Foreign exchange gain (loss) – net	266	(106)	2,558
Share of loss of entities accounted for using equity method	(40)	(6)	(385)
Gain on sale of property, plant and equipment	152	45	1,462
Loss on disposal of property, plant and equipment	(37)	(164)	(356)
Reversal of loss on impairment of long-lived assets		236	
Loss on impairment of long-lived assets (Note 8)		(257)	
Business restructuring expenses (Note 15)		(689)	
Other – net	216	256	2,077
Other income (expenses) – net	715	(485)	6,875
Income before income taxes	2,888	5,332	27,769
Income taxes (Note 13):			
Current	1,011	1,263	9,721
Deferred	120	223	1,154
Total income taxes	1,131	1,486	10,875
Net income	1,757	3,846	16,894
Net income (loss) attributable to noncontrolling interests	25	(208)	240
Net income attributable to owners of the parent	¥ 1,732	¥ 4,054	\$ 16,654
		Yen	U.S. dollars (Note 1)
Per share of common stock (Notes 2.s, 11 and 20):			
Basic net income	¥49.07	¥113.72	\$0.47
Diluted net income	42.46	99.34	0.41
Cash dividends applicable to the year	58.00	56.00	0.56

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net income	¥1,757	¥3,846	\$16,894
Other comprehensive income (Note 19):			
Unrealized (loss) gain on available-for-sale securities	(89)	29	(856)
Foreign currency translation adjustments	(785)	(259)	(7,548)
Defined retirement benefit plans	52	653	500
Share of other comprehensive loss in associates	(2)	(11)	(19)
Total other comprehensive income	(824)	412	(7,923)
Comprehensive income	¥ 933	¥4,258	\$ 8,971
Total comprehensive income attributable to (Note 19):			
Owners of the parent	¥ 914	¥4,465	\$ 8,788
Noncontrolling interests	19	(207)	183

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2020

	Thousands		Millions of yen									
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock-at cost	Accumulated other comprehensive income (loss)			Total	Non-controlling interests	Total equity
							Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans			
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
Net income attributable to owners of the parent					1,732					1,732		1,732
Cash dividends, ¥58.0 per share					(1,975)					(1,975)		(1,975)
Purchase of treasury stock	0					0				0		0
Disposal of treasury stock	55		8			67				75		75
Net change in the year				8			(89)	(781)	52	(810)	10	(800)
Balance, December 31, 2020	35,304	¥12,722	¥13,058	¥429	¥38,298	¥(12,077)	¥ 27	¥(3,352)	¥ 164	¥49,269	¥ 553	¥49,822

	Thousands of U.S. dollars (Note 1)											
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock-at cost	Accumulated other comprehensive income (loss)			Total	Non-controlling interests	Total equity	
						Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans				
Balance, December 31, 2019	\$122,327	\$125,481	\$4,048	\$370,586	\$(116,769)	\$1,115	\$(24,721)	\$1,077	\$483,144	\$5,221	\$488,365	
Net income attributable to owners of the parent				16,654					16,654		16,654	
Cash dividends, \$0.56 per share				(18,990)					(18,990)		(18,990)	
Purchase of treasury stock					0				0		0	
Disposal of treasury stock			77		644				721		721	
Net change in the year			77			(855)	(7,510)	500	(7,788)	96	(7,692)	
Balance, December 31, 2020	\$122,327	\$125,558	\$4,125	\$368,250	\$(116,125)	\$ 260	\$(32,231)	\$1,577	\$473,741	\$5,317	\$479,058	

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Operating activities:			
Income before income taxes	¥ 2,888	¥ 5,332	\$ 27,769
Adjustments for:			
Income taxes – paid	(1,639)	(1,748)	(15,760)
Depreciation and amortization	2,255	2,419	21,683
Reversal of loss on impairment of long-lived assets		(236)	
Loss on impairment of long-lived assets		257	
Business restructuring expenses		689	
Reversal of allowance for doubtful receivables	(3)	(29)	(29)
(Gain) loss on sale and disposal of property, plant and equipment	(115)	119	(1,106)
Changes in assets and liabilities:			
(Increase) decrease in trade receivables	(218)	4,134	(2,096)
Decrease (increase) in inventories	5,832	(2,396)	56,077
Decrease in trade payables	(1,463)	(3,163)	(14,067)
(Decrease) increase in liability for retirement benefits	(141)	100	(1,356)
Other – net	(553)	(354)	(5,317)
Total adjustments	3,955	(208)	38,029
Net cash provided by operating activities	6,843	5,124	65,798
Investing activities:			
Purchases of property, plant and equipment	(1,955)	(3,575)	(18,798)
Proceeds from sale of property, plant and equipment	1,092	884	10,510
(Increase) decrease in short-term investments	(600)	142	(5,769)
Purchases of marketable and investment securities	(200)	(853)	(1,923)
Proceeds from sale of marketable and investment securities	600	500	5,769
Other – net	(190)	(248)	(1,837)
Net cash used in investing activities	(1,253)	(3,150)	(12,048)
Financing activities:			
Dividends paid to shareholders	(1,977)	(1,975)	(19,010)
Dividends paid to noncontrolling shareholders of consolidated subsidiaries	(9)	(10)	(86)
Payments for purchase of treasury stock	0	(1,001)	0
Disposal of treasury stock	20	84	192
Other – net	(170)	(113)	(1,634)
Net cash used in financing activities	(2,136)	(3,015)	(20,538)
Foreign currency translation adjustments on cash and cash equivalents	(232)	(5)	(2,231)
Net increase (decrease) in cash and cash equivalents	3,222	(1,046)	30,981
Cash and cash equivalents at beginning of year	19,807	20,853	190,452
Cash and cash equivalents at end of year	¥23,029	¥19,807	\$221,433

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2020

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, 2019 to conform to the classifications used in the year ended December 31, 2020.

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 ¥104 to \$1, the approximate rate of exchange at December 31, 2020.

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

2 Summary of Significant Accounting Policies

a. Consolidation The consolidated financial statements as of December 31, 2020, include the accounts of the Company and its 18 (18 in 2019) 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 2019) associated company is accounted for by the equity method. Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

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

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

c. 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.

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.

n. Research and Development Costs

Research and development costs are charged to income as incurred.

o. Income Taxes

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

p. Foreign Currency Transactions

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

q. Foreign Currency Financial Statements

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

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

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

r. Derivatives

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

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

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

s. Per Share Information

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

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

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

t. Accounting Changes and Error Corrections

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

- (1) Changes in Accounting Policies – When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.
- (2) Changes in Presentation – When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.
- (3) Changes in Accounting Estimates – A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
- (4) Corrections of Prior-Period Errors – When an error in prior-period financial statements is discovered, those statements are restated.

u. Changes in Presentation

For the year ended December 31, 2020, Share of loss of entities accounted for using equity method included in "Other" under Other income (expense) in the previous year, was individually presented in the Statement of income as the materiality has increased. The amount of Share of loss of entities accounted for using equity method in the previous year was ¥6 million.

v. New Accounting Pronouncements

Revenue Recognition

On March 31, 2020, the ASBJ issued ASBJ Statement No. 29, "Revised Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Revised 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.

Marketable and Investment Securities

On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance. Under this standard, nonmarketable available-for-sale equity securities are stated at cost, while under the current accounting standard, nonmarketable available-for-sale securities are stated at cost.

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.

Accounting Policy Disclosures, Accounting Changes and Error Corrections

On March 31, 2020, the ASBJ issued ASBJ Statement No. 24, "Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections." Under this standard, an entity should clarify the principles and the overview of procedures of the accounting treatment adopted, in cases where the provisions of relevant accounting standards are unclear.

The Company expects to apply the accounting standard for annual periods ending on December 31, 2021.

Disclosure of Accounting Estimates

On March 31, 2020, the ASBJ issued ASBJ Statement No. 31 "Accounting Standard for Disclosure of Accounting Estimates." Under this standard, it is required to disclose information that will facilitate the understanding of the users of the financial statements, regarding items of accounting estimates recorded in the financial statements for the current fiscal year that have the risk of significantly impacting the financial statements for the following fiscal year.

The Company expects to apply the accounting standard for annual periods ending December 31, 2021.

3 Additional Information

Estimation Uncertainty Associated with Accounting Estimates

Demand in the Company's primary market has gradually recovered towards the end of the current fiscal year under review following a decline owing to the spread of COVID-19.

The Company made accounting estimates in its assessment of impairment of long-lived assets and recoverability of deferred tax assets based on the assumption that the situation surrounding the Company will gradually return to the pre-COVID-19 state in the following fiscal year.

It is unclear how much COVID-19 will have an impact and when its spread will end. Therefore, there is a possibility that the Company will incur losses in the future if the effect of COVID-19 is prolonged.

4 Marketable and Investment Securities

Marketable and investment securities at December 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Current:			
Corporate and other bonds	¥ 796		\$ 7,654
Trust fund investments and other	1,100	¥ 500	10,577
Total	¥1,896	¥ 500	\$18,231
Non-current:			
Equity securities	¥ 174	¥ 271	\$ 1,673
Corporate and other bonds	303	1,471	2,913
Trust fund investments and other	214	232	2,058
Total	¥ 691	¥1,974	\$ 6,644

The costs and aggregate fair values of securities classified as available-for-sale at December 31, 2020 and 2019, were as follows:

2020	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	¥ 118	¥ 7	¥16	¥ 109
Corporate and other bonds	1,100	3	5	1,098
Trust fund investments and other	1,129	39		1,168

2019	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	¥ 118	¥85		¥ 203
Corporate and other bonds	1,500	1	30	1,471
Trust fund investments and other	529	35		564

2020	Thousands of U.S. dollars (Note 1)			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	\$ 1,135	\$ 67	\$154	\$ 1,048
Corporate and other bonds	10,577	29	48	10,558
Trust fund investments and other	10,856	375		11,231

Proceeds from sales of available-for-sale securities for the years ended December 31, 2020 and 2019, were ¥9,200 million (\$88,462 thousand) and ¥6,500 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended December 31, 2020, were ¥14 million (\$135 thousand) and nil, and for the year ended December 31, 2019, were ¥0 million and nil, respectively.

5 Short-term Investments

Short-term investments at December 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Deposits over three-month period	¥338	¥351	\$3,250
Total	¥338	¥351	\$3,250

6 Trade Notes and Accounts Receivable

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

Receivables due after one year (less unearned interest) amounted to ¥876 million (\$8,423 thousand) and ¥957 million at December 31, 2020 and 2019, respectively.

7 Inventories

Inventories at December 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Merchandise	¥ 666	¥ 942	\$ 6,404
Finished products	7,594	11,808	73,019
Work in process	3,423	4,486	32,913
Raw materials and supplies	2,441	2,903	23,471
Total	¥14,124	¥20,139	\$135,807

8 Long-lived Assets

The Group reviewed its long-lived assets for impairment as of the years ended December 31, 2019, and recognized impairment losses of ¥257 million.

The losses for the year ended December 31, 2019 were for plants and land used by the Special Products Segment and due to a decision to sell.

The recoverable amounts of these assets as of December 31, 2019 were measured at their net selling price, primarily evaluated at the estimated selling price.

No impairment loss was recognized in 2020.

9 Short-term Bank Loans and Long-term Debt

Short-term bank loans at December 31, 2020 and 2019, consisted of bank overdrafts. The annual interest rates applicable for the years ended December 31, 2020 and 2019, were both 0.11%.

Long-term debt at December 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Zero-coupon convertible bonds due 2021	¥8,007	¥8,023	\$76,990
Lease obligations	76	111	731
Others	486	612	4,673
Total	8,569	8,746	82,394
Less: current portion	8,173	179	78,587
Long-term debt, less current portion	¥ 396	¥8,567	\$ 3,807

Annual maturities of long-term debt at December 31, 2020, were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2021	¥8,166	\$78,519
2022	130	1,250
2023	103	990
2024	72	692
2025	14	135
2026 and thereafter	77	741
Total	¥8,562	\$82,327

Under specific conditions, the convertible bonds outstanding at December 31, 2020, are convertible into 4,771 thousand shares of common stock of the Company from June 30, 2016 to June 2, 2021 at ¥1,677 (\$16.13) 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 ¥1,665 (\$16.01) is applied to any conversion requests from January 1, 2021.

10 Retirement and Pension Plans

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

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

(1) The changes in defined benefit obligation for the years ended December 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Balance at beginning of year	¥9,394	¥9,876	\$90,327
Current service cost	186	183	1,788
Interest cost	100	105	962
Actuarial gains and losses	15	(392)	144
Benefits paid	(449)	(379)	(4,317)
Others	(1)	1	(10)
Balance at end of year	¥9,245	¥9,394	\$88,894

(2) The changes in plan assets for the years ended December 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Balance at beginning of year	¥8,471	¥8,124	\$81,452
Expected return on plan assets	212	203	2,038
Actuarial gains and losses	99	306	952
Contributions from the employer	203	217	1,952
Benefits paid	(447)	(379)	(4,298)
Balance at end of year	¥8,538	¥8,471	\$82,096

(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, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Funded defined benefit obligation	¥ 9,155	¥ 9,312	\$ 88,029
Plan assets	(8,538)	(8,471)	(82,096)
Total	617	841	5,933
Unfunded defined benefit obligation	90	82	865
Net liability arising from defined benefit obligation	¥ 707	¥ 923	\$ 6,798

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Liability for retirement benefits	¥707	¥923	\$6,798
Net liability arising from defined benefit obligation	¥707	¥923	\$6,798

(4) The components of net periodic benefit costs for the years ended December 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Service cost	¥ 186	¥ 183	\$ 1,788
Interest cost	100	105	962
Expected return on plan assets	(212)	(203)	(2,038)
Recognized net actuarial gains and losses	(11)	232	(106)
Net periodic benefit costs	¥ 63	¥ 317	\$ 606

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended December 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Actuarial gains and losses	¥74	¥930	\$712
Total	¥74	¥930	\$712

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of December 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Unrecognized actuarial gains and losses	¥(234)	¥(160)	\$(2,250)
Total	¥(234)	¥(160)	\$(2,250)

(7) Plan assets

a. Components of plan assets

Plan assets as of December 31, 2020 and 2019, consisted of the following:

	2020	2019
Debt investments	24%	24%
Equity investments	24	23
General account	33	33
Others	19	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, 2020 and 2019, are set forth as follows:

	2020	2019
Discount rate	1.1%	1.1%
Expected rate of return on plan assets	2.5%	2.5%
Expected rate of salary increase	4.1%	4.1%

(9) Defined contribution pension plan

The amounts of the required contribution to the defined contribution plans of the consolidated subsidiaries were ¥150 million (\$1,442 thousand) and ¥156 million for the years ended December 31, 2020 and 2019, respectively.

11 Equity

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

(a) Dividends

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

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

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

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

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

(c) Treasury Stock and Treasury Stock Acquisition Rights

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

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

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

12 Stock Options

The stock options outstanding as of December 31, 2020, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2014 I Stock Option	5 directors	23,100 shares	June 9, 2014	¥ 1	From June 9, 2014 to June 8, 2044
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
2020 I Stock Option	3 directors 5 executive officers	59,900 shares	April 13, 2020	¥ 1	From April 13, 2020 to April 12, 2050
2020 II Stock Option	5 executive officers 15 employees 8 directors of subsidiaries	138,000 shares	April 13, 2020	¥1,149	From June 1, 2022 to May 31, 2027

The stock option activity was as follows:

	Shares						
	2014 I Stock Option	2014 II Stock Option	2015 I Stock Option	2015 II Stock Option	2016 I Stock Option	2016 II Stock Option	2017 I Stock Option
Year ended							
December 31, 2019							
Non-vested							
December 31, 2018 – Outstanding							
Granted							
Canceled							
Vested							
December 31, 2019 – Outstanding							
Vested							
December 31, 2018 – Outstanding	18,900	117,400	12,900	141,000	36,200	140,000	24,700
Vested							
Exercised		(13,100)				(17,300)	
Canceled				(4,000)			
December 31, 2019 – Outstanding	18,900	104,300	12,900	137,000	36,200	122,700	24,700
Year ended							
December 31, 2020							
Non-vested							
December 31, 2019 – Outstanding							
Granted							
Canceled							
Vested							
December 31, 2020 – Outstanding							
Vested							
December 31, 2019 – Outstanding	18,900	104,300	12,900	137,000	36,200	122,700	24,700
Vested							
Exercised	(3,400)		(2,500)		(14,100)	(16,000)	(5,400)
Canceled		(104,300)		(4,000)		(2,000)	
December 31, 2020 – Outstanding	15,500		10,400	133,000	22,100	104,700	19,300
Exercise price	¥ 1 \$ 0	¥1,466 \$ 14	¥ 1 \$ 0	¥2,203 \$ 21	¥ 1 \$ 0	¥1,289 \$ 12	¥ 1 \$ 0
Average stock price at exercise	¥1,135 \$ 11		¥1,135 \$ 11		¥1,412 \$ 14	¥1,543 \$ 15	¥1,364 \$ 13
Fair value price at grant date	¥1,209 \$ 12	¥ 265 \$ 3	¥1,995 \$ 19	¥ 407 \$ 4	¥ 988 \$ 10	¥ 165 \$ 2	¥1,384 \$ 13

	Shares						
	2017 II Stock Option	2018 I Stock Option	2018 II Stock Option	2019 I Stock Option	2019 II Stock Option	2020 I Stock Option	2020 II Stock Option
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		24,400					
Vested	138,000			42,700			
Exercised							
Canceled							
December 31, 2019 – Outstanding	138,000	24,400		42,700			
Year ended							
December 31, 2020							
Non-vested							
December 31, 2019 – Outstanding			169,000		161,000		
Granted						59,900	138,000
Canceled			(3,000)				
Vested			(166,000)			(59,900)	
December 31, 2020 – Outstanding					161,000		138,000
Vested							
December 31, 2019 – Outstanding	138,000	24,400		42,700			
Vested			166,000			59,900	
Exercised		(5,000)		(8,700)			
Canceled	(2,000)						
December 31, 2020 – Outstanding	136,000	19,400	166,000	34,000		59,900	
Exercise price	¥1,830 \$ 18	¥ 1 \$ 0	¥2,017 \$ 19	¥ 1 \$ 0	¥1,805 \$ 17	¥ 1 \$ 0	¥1,149 \$ 11
Average stock price at exercise		¥1,316 \$ 13		¥1,315 \$ 13			
Fair value price at grant date	¥ 246 \$ 2	¥1,644 \$ 16	¥ 308 \$ 3	¥1,608 \$ 15	¥ 352 \$ 3	¥ 866 \$ 8	¥ 157 \$ 2

The assumptions used to measure fair value of the 2020 I Stock Options were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	33.725%
Estimated remaining outstanding period:	3.9 years
Estimated dividend:	¥56.00 per share
Risk free interest rate:	(0.150)%

The assumptions used to measure fair value of the 2020 II Stock Options were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	35.069%
Estimated remaining outstanding period:	4.6 years
Estimated dividend:	¥56.00 per share
Risk free interest rate:	(0.143)%

13 Income Taxes

The Company and its consolidated subsidiaries in Japan are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 29.9% for the years ended December 31, 2020 and 2019.

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, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Deferred tax assets			
Tax loss carryforwards	¥ 766	¥ 42	\$ 7,365
Depreciation	314	352	3,019
Liability for retirement benefits	206	272	1,981
Inventories	205	192	1,971
Accrued bonuses	183	211	1,760
Impairment loss	43	158	414
Unrealized profit on inventories	10	530	96
Other – net	317	398	3,048
Less valuation allowance	(293)	(359)	(2,817)
Total	1,751	1,796	16,837
Deferred tax liabilities			
Undistributed earnings of associated companies	(899)	(783)	(8,644)
Other – net	(180)	(188)	(1,731)
Total	(1,079)	(971)	(10,375)
Net deferred tax assets (liabilities)	¥ 672	¥ 825	\$ 6,462

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of December 31, 2020 and 2019, were as follows:

No material tax loss carryforwards was recognized in 2019.

2020	Millions of yen						Total
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	
Deferred tax assets relating to tax loss carryforwards						¥766	¥766
Less valuation allowances for tax loss carryforwards							
Net deferred tax assets relating to tax loss carryforwards						¥766	¥766

2020	Thousands of U.S. Dollars						Total
	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	
Deferred tax assets relating to tax loss carryforwards						\$7,365	\$7,365
Less valuation allowances for tax loss carryforwards							
Net deferred tax assets relating to tax loss carryforwards						\$7,365	\$7,365

Notes: 1. The amount of tax loss carryforwards is multiplied by the normal effective statutory tax rate.

2. The deferred tax assets relating to ¥766 million (\$7,365 thousand) tax loss carryforwards were ¥766 million (\$7,365 thousand). The Company expects to recover the total amount of the tax loss carryforwards through the estimated future taxable profits.

A reconciliation between the normal effective statutory tax rate for the years ended December 31, 2020 and 2019, and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	2020	2019
Normal effective statutory tax rate	29.9%	29.9%
Unrealized profit on inventories	10.2	0.7
Undistributed earnings of associated companies	7.1	4.5
Effect of foreign tax rate differences	(6.6)	(4.5)
Research and development tax credits		(1.7)
Valuation allowance	(1.2)	1.2
Other – net	(0.2)	(2.2)
Actual effective tax rate	39.2%	27.9%

14 Research and Development Costs

Research and development costs charged to income were ¥1,470 million (\$14,135 thousand) and ¥1,680 million for the years ended December 31, 2020 and 2019, respectively.

15 Business Restructuring Expenses

Business restructuring expenses for the year ended December 31, 2019 were due to implementation of restructuring the Company and Shanghai S&E Precision Co., Ltd., a subsidiary of the Company, and consist of special retirement expenses of ¥340 million, and impairment losses of ¥349 million.

The impairment losses for the year ended December 31, 2019 were for production facilities used by the Precision Products Segment due to a decision to discontinue the Precision Products Division of the Company, and for production facilities of Shanghai S&E Precision Co., Ltd. and due to a decision of dissolution.

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.

16 Leases

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

Obligations under noncancelable operating leases at December 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Due within one year	¥34	¥ 42	\$327
Due after one year	39	87	375
Total	¥73	¥129	\$702

17 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, 2020	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	¥23,029	¥23,029		\$221,433	\$221,433	
Marketable and investment securities	2,375	2,375		22,837	22,837	
Short-term investments	338	338		3,250	3,250	
Trade receivables	14,296	14,296		137,461	137,461	
Total	¥40,038	¥40,038		\$384,981	\$384,981	
Trade payables	¥ 5,776	¥ 5,776		\$ 55,539	\$ 55,539	
Short-term bank loans	2,500	2,500		24,038	24,038	
Current portion of convertible bonds	8,007	8,376	¥369	76,990	80,538	\$3,548
Total	¥16,283	¥16,652	¥369	\$156,567	\$160,115	\$3,548
Derivatives	¥ (1)	¥ (1)		\$ (10)	\$ (10)	

December 31, 2019	Millions of yen		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥19,807	¥19,807	
Marketable and investment securities	2,238	2,238	
Short-term investments	351	351	
Trade receivables	14,391	14,391	
Total	¥36,787	¥36,787	
Trade payables	¥ 7,252	¥ 7,252	
Short-term bank loans	2,500	2,500	
Convertible bonds	8,023	8,692	¥669
Total	¥17,775	¥18,444	¥669
Derivatives	¥ (54)	¥ (54)	

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 18.

(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)
	2020	2019	2020
Investments in equity instruments that do not have a quoted market price in an active market	¥ 65	¥ 67	\$ 625
Investments in unconsolidated subsidiaries and associated companies	223	265	2,144
Investments in limited partnerships	146	168	1,404
Total	¥434	¥500	\$4,173

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

December 31, 2020	Millions of yen			
	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	¥23,029			
Marketable and investment securities	1,900	¥ 358	¥88	
Short-term investments	338			
Trade receivables	13,420	876		
Total	¥38,687	¥1,234	¥88	

December 31, 2019	Millions of yen			
	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	

December 31, 2020	Thousands of U.S. dollars (Note 1)			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	\$221,433			
Marketable and investment securities	18,269	\$ 3,442	\$846	
Short-term investments	3,250			
Trade receivables	129,038	8,423		
Total	\$371,990	\$11,865	\$846	

18 Derivatives

Derivative transactions to which hedge accounting is not applied

At December 31, 2020	Millions of yen			
	Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Selling	¥3,438		¥(1)	¥(1)
Buying	111		0	0
Total	¥3,549		¥(1)	¥(1)

At December 31, 2019	Millions of yen			
	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, 2020	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	\$33,058		\$(10)	\$(10)
Buying	1,067		0	0
Total	\$34,125		\$(10)	\$(10)

19 Other Comprehensive Income

The components of other comprehensive income for the years ended December 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥ (88)	¥ 34	\$ (846)
Reclassification adjustments to profit or loss		0	
Amount before income tax effect	(88)	34	(846)
Income tax effect	(1)	(5)	(10)
Total	¥ (89)	¥ 29	\$ (856)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥(785)	¥(259)	\$(7,548)
Total	¥(785)	¥(259)	\$(7,548)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 85	¥ 698	\$ 818
Reclassification adjustments to profit or loss	(11)	232	(106)
Amount before income tax effect	74	930	712
Income tax effect	(22)	(277)	(212)
Total	¥ 52	¥ 653	\$ 500
Share of other comprehensive income in an associate:			
Losses arising during the year	¥ (2)	¥ (11)	\$ (19)
Total	¥ (2)	¥ (11)	\$ (19)
Total other comprehensive income	¥(824)	¥ 412	\$(7,923)

20 Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2020 and 2019, was as follows:

	Millions of yen Net income attributable to owners of the parent	Thousands of shares Weighted- average shares	Yen	U.S. dollars (Note 1) EPS
Year ended December 31, 2020				
Basic EPS				
Net income attributable to common shareholders	¥1,732	35,287	¥ 49.07	\$0.47
Effect of dilutive securities				
Convertible bonds	(24)	4,771		
Stock acquisition rights		174		
Diluted EPS				
Net income for computation	¥1,708	40,232	¥ 42.46	\$0.41
Year ended December 31, 2019				
Basic EPS				
Net income attributable to common shareholders	¥4,054	35,648	¥113.72	
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	

21 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 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.

December 31, 2020	Millions of yen					
	Reportable Segment				Reconcilia- tions	Consolidated
	Special Products	Machine Tools	Precision Products	Total		
Sales to external customers	¥11,721	¥32,967	¥ 983	¥45,671		¥45,671
Intersegment sales or transfers						
Total	11,721	32,967	983	45,671		45,671
Segment profit	¥ 1,546	¥ 2,614	¥ 83	¥ 4,243	¥ (2,070)	¥ 2,173
Segment assets	¥ 9,981	¥44,747	¥2,004	¥56,732	¥14,890	¥71,622
Other items:						
Depreciation	353	1,528	91	1,972	283	2,255
Investments in associates	223			223		223
Increase in property, plant and equipment and intangible assets	111	1,560	10	1,681	227	1,908

December 31, 2019	Millions of yen					
	Reportable Segment				Reconcilia- tions	Consolidated
	Special Products	Machine Tools	Precision Products	Total		
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

December 31, 2020	Thousands of U.S. dollars (Note 1)					
	Reportable Segment				Reconcilia- tions	Consolidated
	Special Products	Machine Tools	Precision Products	Total		
Sales to external customers	\$112,702	\$316,990	\$ 9,452	\$439,144		\$439,144
Intersegment sales or transfers						
Total	112,702	316,990	9,452	439,144		439,144
Segment profit	\$ 14,865	\$ 25,135	\$ 798	\$ 40,798	\$ (19,904)	\$ 20,894
Segment assets	\$ 95,971	\$430,260	\$19,269	\$545,500	\$143,173	\$688,673
Other items:						
Depreciation	3,394	14,693	875	18,962	2,721	21,683
Investments in associates	2,144			2,144		2,144
Increase in property, plant and equipment and intangible assets	1,067	15,000	96	16,163	2,183	18,346

- 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.

Related Information

1. Related information by geographical area at December 31, 2020 and 2019, consisted of the following:

(1) Net Sales

December 31, 2020	Millions of yen				Total
	Japan	USA	China	Others	
	¥5,754	¥13,708	¥10,437	¥15,772	¥45,671

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

December 31, 2020	Thousands of U.S. dollars (Note 1)				Total
	Japan	USA	China	Others	
	\$55,327	\$131,807	\$100,356	\$151,654	\$439,144

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

(2) Property, Plant and Equipment

December 31, 2020	Millions of yen				Total
	Japan	Thailand	China	Others	
	¥9,048	¥2,099	¥1,908	¥1,217	¥14,272

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

December 31, 2020	Thousands of U.S. dollars (Note 1)				Total
	Japan	Thailand	China	Others	
	\$87,000	\$20,183	\$18,346	\$11,702	\$137,231

2. Information for impairment loss of long-lived assets by reportable segments at December 31, 2020 and 2019, was as follows:

No impairment loss was recognized in 2020.

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

22 Related Party Disclosures

Transactions of the Company with related parties for the years ended December 31, 2020 and 2019, were as follows:

Year ended December 31, 2020

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	\$115

Year ended December 31, 2019

Related party	Category	Description of transaction	Millions of yen
Hajime Sato	Chairman of the Board	Exercise of stock options	¥12
Junichi Murakami	Executive officer	Exercise of stock options	¥12

23 Subsequent Event

The following appropriation of retained earnings at December 31, 2020, is to be approved at the Company's Board of Directors' meeting held on February 19, 2021:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥30 (\$0.288) per share	¥1,059	\$10,183

Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Star Micronics Co., Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of December 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

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

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

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

Member of
Deloitte Touche Tohmatsu Limited

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte Touche Tohmatsu LLC

March 25, 2021

Stock Information

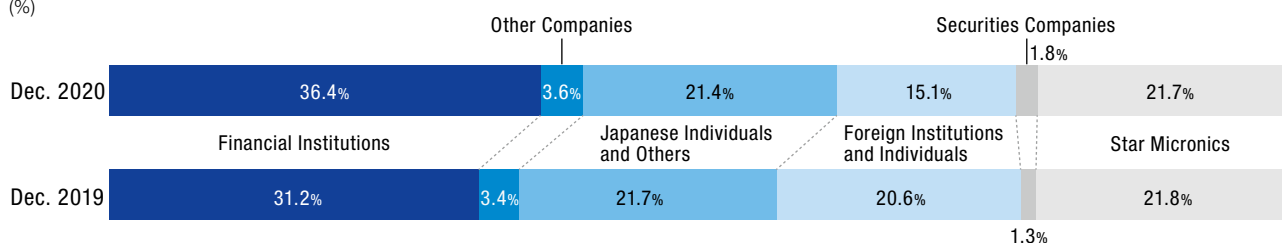
as of December 31, 2020

Common Stock	Authorized	158,000,000
	Issued	45,091,334
Paid-in Capital		12,721,939,515 yen
Number of Shareholders		9,103

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

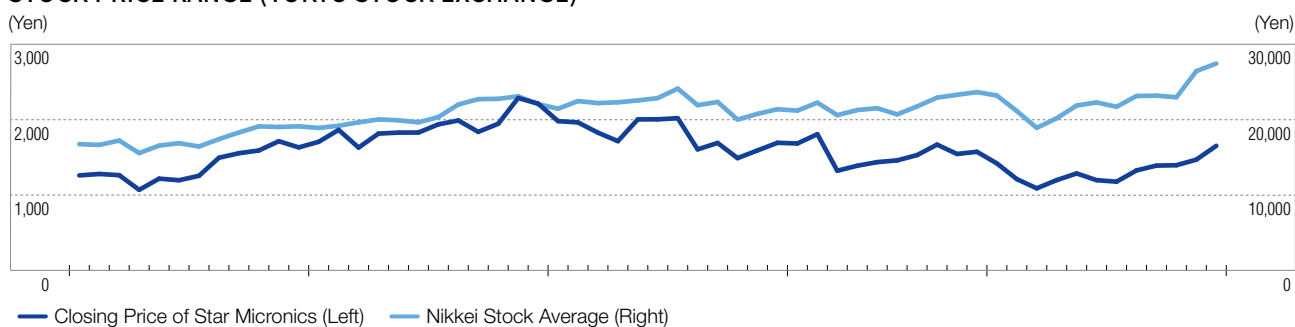
COMPOSITION OF SHAREHOLDERS

(%)



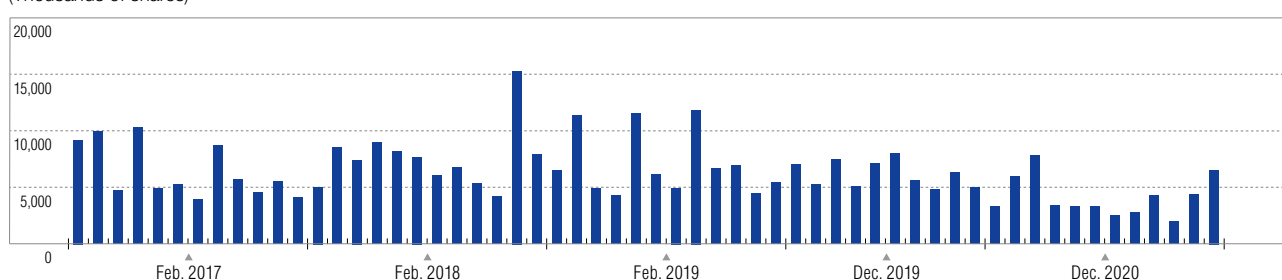
STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)

(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. 2017	Feb. 2018	Dec. 2018	Dec. 2019	Dec. 2020
At year-end	1,633	2,213	1,491	1,575	1,654
High	1,770	2,480	2,270	1,893	1,720
Low	1,023	1,588	1,332	1,258	945

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