FINANCIAL SECTION

Contents

Consolidated Eleven-Year Summary

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

	Dec. 2023	Dec. 2022	Dec. 2021
For the year:			
Net sales	**¥78,196**	¥87,368	¥64,360
Cost of sales	**47,472**	53,526	41,756
Selling, general and administrative expenses	**20,373**	19,917	15,189
Operating income	**10,351**	13,925	7,415
Other income (expenses) – net	**750**	287	549
Income before income taxes	**11,101**	14,212	7,964
Income taxes	**2,928**	3,823	2,174
Net (loss) income attributable to noncontrolling interests	**(2)**	90	50
Net income attributable to owners of the parent	**8,175**	10,299	5,740
Net cash provided by operating activities	**7,127**	7,523	9,601
Net cash (used in) provided by investing activities	**(2,039)**	(2,633)	741
Free cash flows	**5,088**	4,890	10,342
Net cash (used in) provided by financing activities	**(5,054)**	(4,624)	(7,559)
Per share:			
Basic net income	**¥218.89**	¥271.14	¥150.83
Diluted net income	**218.17**	270.01	142.38
Cash dividends applicable to the year	**60.00**	70.00	58.00
At year-end:			
Current assets	**¥73,357**	¥80,073	¥65,707
Net property, plant and equipment	**15,903**	15,697	14,309
Total assets	**93,399**	99,539	82,361
Long-term liabilities	**1,644**	1,347	1,128
Total equity	**80,347**	73,088	61,728
Stock exchange price per share of common stock:			
Highest	**¥1,936**	¥1,858	¥1,893
Lowest	**1,560**	1,318	1,416
Selected financial indicators:			
Equity ratio (%)	**85.6**	73.0	74.1
Return on equity (%)	**10.7**	15.4	10.4
Dividend payout ratio (%)	**27.4**	25.8	38.5
Dividend on equity (%)	**2.9**	4.0	3.9

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

Millions of yen (Except for per share data)

Dec. 2020	Dec. 2019	Dec. 2018	Feb. 2018	Feb. 2017	Feb. 2016	Feb. 2015	Feb. 2014
¥45,671	¥60,652	¥65,940	¥60,773	¥48,937	¥54,458	¥50,958	¥43,482
30,349	38,330	40,478	38,511	30,825	33,558	31,355	28,047
13,149	16,505	15,750	16,052	14,505	15,165	14,126	12,829
2,173	5,817	9,712	6,210	3,607	5,735	5,477	2,606
715	(485)	(1,029)	149	224	(383)	605	40
2,888	5,332	8,683	6,359	3,831	5,352	6,082	2,646
1,131	1,486	1,764	487	572	1,530	1,285	1,400
25	(208)	124	91	78	101	101	103
1,732	4,054	6,795	5,781	3,181	3,721	4,696	1,143
6,843	5,124	6,089	8,923	5,338	3,107	4,326	2,597
(1,253)	(3,150)	(2,950)	(5,013)	813	(1,074)	(2,501)	(2,455)
5,590	1,974	3,139	3,910	6,151	2,033	1,825	142
(2,136)	(3,015)	(3,766)	(2,926)	139	(2,180)	(1,568)	(1,394)
¥ 49.07	¥113.72	¥186.04	¥155.68	¥ 81.77	¥ 87.98	¥111.36	¥ 27.17
42.46	99.34	163.42	136.90	74.69	87.69	111.05	27.14
58.00	56.00	54.00	52.00	48.00	46.00	44.00	34.00
¥54,893	¥56,830	¥59,914	¥59,635	¥53,172	¥50,367	¥50,533	¥41,233
14,272	15,542	15,521	14,076	12,926	14,360	15,309	14,327
71,622	76,394	79,935	77,363	68,351	67,828	70,261	59,303
1,266	9,675	10,046	9,697	9,935	2,021	617	524
49,822	50,790	49,312	47,447	43,755	50,200	51,903	45,698
	Yen						
¥1,720	¥1,893	¥2,270	¥2,480	¥1,770	¥2,238	¥1,885	¥1,422
945	1,258	1,332	1,588	1,023	1,125	1,115	857
68.2	65.2	60.3	60.1	62.8	72.7	72.4	75.5
3.5	8.3	14.3	12.9	6.9	7.4	9.8	2.7
118.2	49.2	29.0	33.4	58.7	52.3	39.5	125.1
4.1	4.1	4.1	4.3	4.1	3.9	3.9	3.4

Management's Discussion and Analysis

OVERVIEW (Years ended December 31, 2023 and 2022)

Business Environment

Looking at 2023, the outlook for the economy remained uncertain throughout the period under review. Despite an overall modest recovery amid signs of a lull in the surge in resource prices and prolonged inflation, this uncertainty largely reflects growing concerns surrounding the threat of an economic recession owing to the prolonged upswing in interest rates in the U.S. and Europe, deteriorating market conditions and slowing investment in China, and fluctuations in foreign currency exchange rates.

Net Sales

(Millions of yen)

	2022	2023	Change (%)
	¥87,368	**¥78,196**	(10.5)

In each of the major markets in which the Star Micronics Group operates, demand for POS printers was generally weak. In addition, demand for the Group's mainstay machine tools in overseas markets, which had previously remained high, stalled with little or no forward momentum. Exacerbating these difficult trends, demand in Japan also failed to recover.

Operating Income

(Millions of yen)

	2022	2023	Change (%)
	¥13,925	**¥10,351**	(25.7)

Despite the overall impact of depreciation in the value of the yen, operating income came in at ¥10,351 million owing mainly to a decline in sales of the Company's machine tools.

Net Income Attributable to Owners of the Parent

(Millions of yen)

	2022	2023	Change (%)
	¥10,299	**¥8,175**	(20.6)

Net income attributable to owners of the parent amounted to ¥8,175 million largely reflecting the decrease in net sales.

Cash Dividends per Share

(Yen)

	2022	2023	Change (yen)
	¥70	**¥60**	¥(10)

The annual cash dividend for the year under review was ¥60 per share. Excluding the special dividend paid for 2022, this annual dividend is unchanged from the previous year.

Total Assets

(Millions of yen)

	2022	2023	Change (%)
	¥99,539	**¥93,399**	(6.2)

Total assets as of December 31, 2023 decreased compared with the end of the previous year. This largely reflected the decline in trade notes and accounts receivable as well as inventories.

Free Cash Flows

(Millions of yen)

	2022	2023	Change (%)
	¥4,890	**¥5,088**	4.0

While the Company experienced a year-on-year downturn in net cash provided by operating activities owing to a variety of factors, including a decline in profits as well as larger capital expenditures and acquisition investments than in the previous year, free cash flows came in at ¥5,088 million on the back of sales of marketable securities and withdrawal of time deposits.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

(Millions of yen)

	2022	2023	Change (%)
	¥3,390	**¥2,680**	(20.9)

Capital expenditures amounted to ¥2,680 million. This largely included expenditure on production equipment to expand capacity in the Machine Tools Segment and construction of a new building at an overseas subsidiary.

Net Sales by Region

(Millions of yen)

	2022	2023	Change (%)
Japan	¥ 9,037	**¥ 8,402**	(7.0)
USA	27,904	**21,952**	(21.3)
Germany	8,743	**10,422**	19.2
China	17,112	**10,333**	(39.6)
Others	24,572	**27,087**	10.2

INCOME ANALYSIS

Despite the downturn in net sales, operating income exceeded ¥10 billion for a second consecutive year

Star Micronics reported consolidated net sales of ¥78,196 million (US$550,676 thousand) in 2023, down ¥9,172 million, or 10.5%, compared with the previous year. Despite this downturn from the record high in 2022, net sales were the Company's third highest in the year under review. Looking at economic conditions throughout 2023, the outlook for the economy remained uncertain. Despite an overall modest recovery amid signs of a lull in the surge in resource prices and prolonged inflation, this uncertainty was largely due to growing concerns surrounding the threat of an economic recession owing to the prolonged upswing in interest rates in the U.S. and Europe, deteriorating market conditions and slowing investment in China, and fluctuations in foreign currency exchange rates. Against this backdrop, demand for POS printers was generally weak in each of the major markets in which the Star Micronics Group operates. In addition, demand for the Group's mainstay machine tools in overseas markets, which had previously remained high, stalled with little or no forward momentum. Exacerbating these difficult trends, demand in Japan also failed to recover. Under these circumstances, the cost of sales came to ¥47,472 million (US$334,310 thousand), a decrease of ¥6,054 million, or 11.3%, compared with the previous year. On this basis, gross profit fell ¥3,118 million, or 9.2%, year on year, to ¥30,724 million (US$216,366 thousand).

Selling, general and administrative (SG&A) expenses were ¥20,373 million (US$143,472 thousand), up ¥456 million, or 2.3%, compared with the previous year.

Taking into account the aforementioned factors, operating income declined ¥3,574 million, or 25.7%, year on year, to ¥10,351 million (US$72,894 thousand).

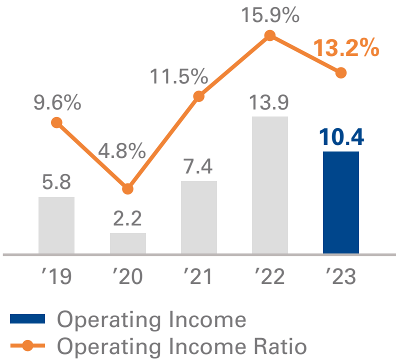
Posted the Company's second highest net income attributable to owners of the parent

In 2023, other income – net came to ¥750 million (US$5,282 thousand), up from ¥287 million in the previous year. In the year under review, Star Micronics reported a foreign exchange gain – net of ¥23 million (US$162 thousand).

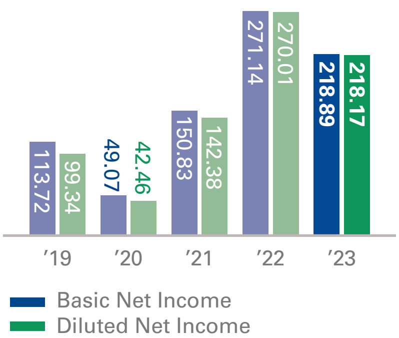
As a result, income before income taxes amounted to ¥11,101 million (US$78,176 thousand), a decrease of ¥3,111 million, or 21.9%, compared with the previous year. Net income attributable to owners of the parent after deducting income taxes and the net loss attributable to noncontrolling interests came to ¥8,175 million (US$57,570 thousand), a downturn of ¥2,124 million, or 20.6%, year on year.

Basic net income per share was ¥218.89 (US$1.54) and diluted net income per share was ¥218.17 (US$1.54).

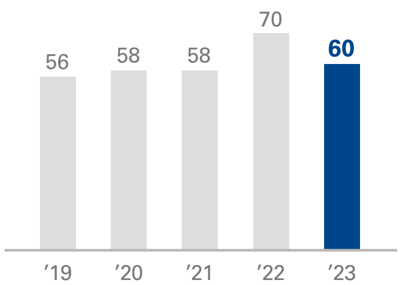
Operating Income and Operating Income Ratio
(Billions of yen, %)



Net Income per Share
(Yen)



Cash Dividends per Share
(Yen)



Stable dividend of ¥60 per share, unchanged from the previous year

Star Micronics set its annual cash dividend at ¥60 (US$0.42) per share. Excluding the special dividend paid for 2022, this annual dividend is unchanged from the previous year. In addition, the Company's consolidated total payout ratio came in at 51.6% for the year under review. Looking ahead, Star Micronics plans to pay an interim and year-end cash dividend of ¥30 per share each for an annual cash dividend of ¥60 per share for 2024.

Under its basic dividend policy, Star Micronics is targeting a consolidated total payout ratio of at least 50%. This includes the continuous payment of a progressive and stable annual dividend of at least ¥60 per share as well as the repurchase of own shares. As far as the Company's internal reserves are concerned, Star Micronics is committed to enhancing its corporate value while increasing shareholders' profits. At the same time, the Company will look to engage in a variety of activities including investment in future growth fields in a bid to ensure its sustainable growth.

FINANCIAL POSITION & LIQUIDITY

Decrease in total assets owing to the decline in such accounting line items as trade notes and accounts receivable as well as inventories

Total current assets stood at ¥73,357 million (US$516,598 thousand) as of December 31, 2023, down ¥6,716 million, or 8.4%, compared with the end of the previous year. The downturn in total current assets largely reflected year-on-year decreases of ¥4,142 million, or 18.2%, to ¥18,556 million (US$130,676 thousand) in trade notes and accounts receivable and ¥3,324 million, or 13.2%, to ¥21,763 million (US$153,260 thousand) in inventories.

The balance of property, plant and equipment climbed ¥206 million, or 1.3%, compared with the end of the previous year, to ¥15,903 million (US$111,993 thousand) owing mainly to the year-on-year increase in land of ¥481 million, or 24.0%, to ¥2,489 million (US$17,528 thousand) and in buildings and structures of ¥803 million, or 5.0%, to ¥16,884 million (US$118,902 thousand).

The balance of investments and other assets grew ¥370 million, or 9.8%, compared with the previous year-end, to ¥4,139 million (US$29,148 thousand).

Accounting for each of these factors, the balance of total assets as of the end of the year under review decreased ¥6,140 million, or 6.2%, compared with the end of the previous year, to ¥93,399 million (US$657,739 thousand).

Decrease in liabilities owing to downturns in such accounting line items as payables and income taxes payable

Total current liabilities stood at ¥11,408 million (US$80,338 thousand) as of December 31, 2023, a decrease of ¥13,696 million, or 54.6%, compared with the previous year. This decrease was mainly due to year-on-year downturns of ¥10,158 million, or 57.0%, to ¥7,652 million (US$53,887 thousand) in payables and of ¥2,103 million, or 87.0%, to ¥314 million (US$2,211 thousand) in income taxes payable.

Total long-term liabilities climbed ¥297 million, or 22.0%, compared with the end of the previous year, to ¥1,644 million (US$11,577 thousand).

Increase in equity owing to the accumulation of retained earnings

Total equity increased ¥7,259 million, or 9.9%, compared with the end of the previous year, to ¥80,347 million (US$565,824 thousand). Despite the impact of such initiatives as the payment of cash dividends as well as the purchase and disposal of treasury stock, this increase in total equity was largely attributable to the year-on-year upswings in retained earnings of ¥5,552 million, or 11.1%, to ¥55,401 million (US$390,148 thousand), and in foreign currency translation adjustments of ¥3,693 million, or 109.7%, to ¥7,059 million (US$49,711 thousand).

Accounting for the increase in total equity, the equity ratio came in at 85.6%, up 12.6 percentage points year on year. Equity per share as of December 31, 2023 climbed ¥249.77 compared with the previous year-end, to ¥2,178.54 (US$15.34).

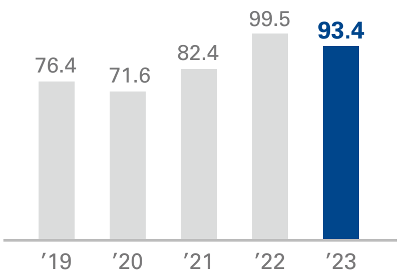
CASH FLOWS

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

Net cash provided by operating activities came to ¥7,127 million (US$50,190 thousand) in the year under review. The principal cash inflows came from income before income taxes of ¥11,101 million (US$78,176 thousand), depreciation and amortization of ¥2,710 million (US$19,085 thousand), the decrease in trade receivables

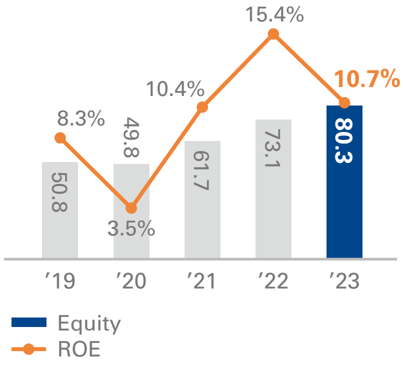
Total Assets

(Billions of yen)



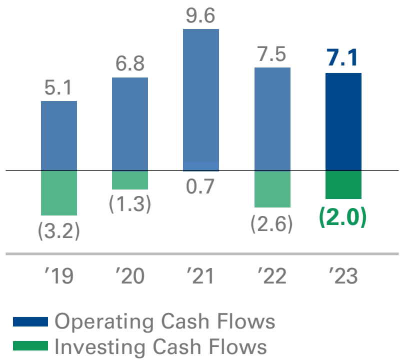
Equity and Return on Equity

(Billions of yen, %)



Cash Flows

(Billions of yen)



of ¥6,390 million (US$45,000 thousand), and the decrease in inventories of ¥4,711 million (US$33,176 thousand), which exceeded the major cash outflows that emanated from the decrease in trade payables of ¥11,762 million (US$82,831 thousand) and income taxes – paid of ¥5,143 million (US$36,218 thousand).

Net cash used in investing activities came to ¥2,039 million (US$14,359 thousand). This largely reflected purchases of property, plant and equipment of ¥2,321 million (US$16,345 thousand) and proceeds from sale of shares of subsidiaries and associates resulting in change in scope of consolidation of ¥383 million (US$2,697 thousand).

Net cash used in financing activities amounted to ¥5,054 million (US$35,592 thousand). This was mainly due to dividends paid to shareholders of ¥2,628 million (US$18,507 thousand) and payments for purchase of treasury stock of ¥2,002 million (US$14,099 thousand).

Taking into account the aforementioned activities as well as foreign currency translation adjustments on cash and cash equivalents ¥1,836 million (US$12,930 thousand) and the net increase in cash and cash equivalents of ¥1,870 million (US$13,169 thousand), cash and cash equivalents at end of year stood at ¥31,434 million (US$221,366 thousand).

CAPITAL EXPENDITURES AND R&D EXPENSES

Investment in equipment to expand capacity in the Machine Tools Segment and construction of a new building at an overseas subsidiary in 2023

In 2023, capital expenditures, which totaled ¥2,680 million (US$18,873 thousand), were largely directed toward investments in equipment to expand capacity in the Machine Tools Segment and to construct a new building at an overseas subsidiary. In 2024, Star Micronics plans to undertake capital expenditures of ¥5,545 million focusing mainly on a large-scale renewal of the Company's Kikugawa Factory in the Machine Tools Segment and construction of the Europe Solution Center.

Special Products—Capital expenditures in the Special Products Segment decreased ¥104 million compared with the previous year, to ¥502 million (US$3,535 thousand). In 2024, the Company is budgeting expenditures of ¥448 million in this segment for molds used in maintenance and renewal work.

Machine Tools—Capital expenditures in the Machine Tools Segment declined ¥556 million compared with the previous year, to ¥2,042 million (US$14,380 thousand). In 2024, the Company plans to undertake capital expenditures of ¥4,886 million. This includes the large-scale renewal of the Company's Kikugawa Factory and construction of the Europe Solution Center.

New product development in each segment

Underpinned by its precision processing and assembly technologies nurtured over the years, the Star Micronics Group is engaged in a range of research and development activities that seek to further create added value, including the development of products and technologies that are directly related to its current operating segments, and the launch of new businesses.

The principal results of research and development undertaken during the year under review were as follows, with total research and development expenses amounting to ¥1,849 million.

Special Products Segment—In the current fiscal year, Star Micronics developed the TSP100IV SK linerless sticky label printer and the MCP31CI/CBI as the latest model in the mC-Print®3 series.

The TSP100IV SK is a desktop label printer specifically designed for use with repositionable sticky label paper. Doing away with the use of a backing that is later discarded as waste, repositionable labels are able to address a wide range of needs, including situations where consumers desire to remove product labels attached to reusable containers, as well as situations where magazines and documents require temporary identification. Moreover, by specializing in linerless sticky labels, this model achieves a far more compact design than existing models.

The MCP31CI/CBI is a printer for mobile POSs that support store operations. By increasing the maximum printing speed to 400mm/second from the 250mm/second of existing models, the MCP31CI/CBI greatly shortens the paper output time. Moreover, it is equipped with a next-generation USB-C, thereby enabling connection to any iOS, Android™, Windows®, or other device with USB connectivity. In addition, this model is designed with the environment in mind, offering support for environmentally friendly paper as the recommended option, doing away with plastic packaging materials, and using smaller individual packaging boxes to reduce CO_2 emissions during transport.

Research and development expenses for the Special Products Segment totaled ¥780 million.

Machine Tools Segment—In the current fiscal year, Star Micronics developed the SP-20, a new model of CNC Swiss-Type Automatic Lathe, capable of supporting parts machining in various industries such as automobiles, hydraulic/pneumatic equipment, general machinery, and medical devices.

The SP-20 employs a gate-shaped tool post configured to surround the guide bush as the tool post for front side machining. Up to 8 turning tools can be mounted on the front side, and the back side is equipped with a 7-spindle cross-drilling unit. Of the 7 spindles on this cross-drilling unit, there are 5 cartridge-type positions, and a wide variety of tool units can be mounted according to the shape of the workpieces. In addition, a 4-spindle type and 5-spindle type are available for the sleeve holder for drilling tools on the upper section, so you can select the type according to the purpose of the drilling. To support increasingly diverse parts machining needs, you can optionally select to enable machining of bars up to 25.4 mm. In addition, both the main axle shaft and back axle shaft are designed with torque boosting specifications, thereby enabling high-load machining. In order to reduce the environmental footprint, this model is equipped with Eco Mode, which reduces standby power consumption when the machine is idling.

From a software perspective, Star Micronics has developed various user-convenience and workability improving functions, which the Company is starting to equip on all machine models. These include Step Cycle Pro for improving productivity via chip-breaking operations, an Eccentric Turning function for machining eccentric shapes using cutting tools, Easy Edit for enabling the creation of simple on-machine programs, and a B-connect function for connecting automatic material supply devices via an ethernet IP for integrated control with the main machine unit.

Research and development expenses for the Machine Tools Segment amounted to ¥941 million.

Development Headquarters—In the current fiscal year, under the theme of production DX, Star Micronics developed a machining estimation support system that is compliant with the Company’s machine tools. Developed for the SB-20R, the Company’s top-selling machine model, this system’s logic is integrated with the know-how of engineers, thereby enabling it to automatically estimate machining processes and machining durations. By employing this program, users can expect to reduce work-hours by 70% compared with estimations conventionally performed by people. Moreover, the Company also developed a database function with the ability to centralize management of estimate request data from customers (input) and estimate results data (output).

Under the theme of store DX, the Company welcomed Smart Solution Technology, Inc. (SST), into the Special Products Segment. SST provides services for restaurant and retail establishments; develops, manufacturers, and sells terminals for attendance management services; and possesses sound wave-based data communications technologies. As a store DX solution for which synergistic outcomes with the Special Products Segment are expected, SST developed Kirokuru, a QSC* checking tool for restaurant chain establishments, which it launched on the market during the second half of the year. Employing this service allows users to potentially reduce work-hours by approximately 70% compared with work-hours involved in existing QSC checking approaches, which will help improve store operations and boost sales.

Under the theme of logistics DX, the Company proposed a planning service related to logistics management for retail establishments, and began data analysis for partner companies after developing a prototype version.

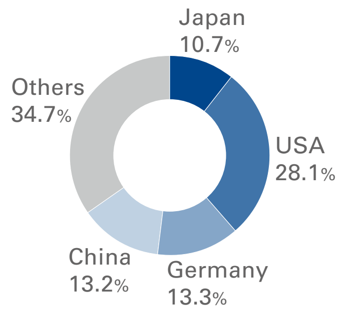
Research and development expenses came to ¥126 million.

* QSC: Quality, Service, Cleanliness

SALES FRAMEWORK AND NET SALES BY REGION

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

Net Sales by Region



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

Maintaining a high ratio of overseas sales as a proportion of total sales

Star Micronics' ratio of overseas sales as a proportion of total sales edged down 0.4 of a percentage point compared with the previous year, to 89.3% in the year under review.

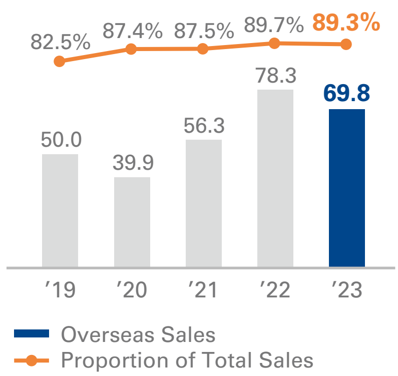
By region, net sales in the U.S. amounted to ¥21,952 million (US$154,592 thousand), a decrease of ¥5,952 million, or 21.3%, year on year.

Net sales in Germany totaled ¥10,422 million (US$73,394 thousand), an increase of ¥1,679 million, or 19.2%, compared with the previous year.

Net sales in China came to ¥10,333 million (US$72,768 thousand), a year-on-year decline of ¥6,779 million, or 39.6%.

In Japan, net sales came to ¥8,402 million (US$59,169 thousand), a drop of ¥635 million, or 7.0%, year on year.

Overseas Sales and Proportion of Total Sales
(Billions of yen, %)



Consolidated Balance Sheet

Star Micronics Co., Ltd. and Consolidated Subsidiaries
December 31, 2023

Assets	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars (Note 1) 2023
Current assets:			
Cash and cash equivalents (Note 17)	¥ 31,434	¥ 29,565	$ 221,366
Marketable securities (Notes 5 and 17)		34	
Short-term investments (Notes 6 and 17)	287	505	2,021
Receivables (Notes 7 and 17):			
Trade notes and accounts receivable	18,556	22,698	130,676
Unconsolidated subsidiaries and associated companies	39	52	274
Other	588	1,293	4,141
Allowance for doubtful receivables	(198)	(133)	(1,394)
Inventories (Note 8)	21,763	25,087	153,260
Prepaid expenses and other	888	972	6,254
Total current assets	73,357	80,073	516,598
Property, plant and equipment:			
Land	2,489	2,008	17,528
Buildings and structures	16,884	16,081	118,902
Machinery and equipment	21,611	21,979	152,190
Lease assets (Note 16)	149	121	1,049
Construction in progress	144	216	1,014
Other	2,190	1,902	15,423
Total	43,467	42,307	306,106
Accumulated depreciation	(27,564)	(26,610)	(194,113)
Net property, plant and equipment	15,903	15,697	111,993
Investments and other assets:			
Investment securities (Notes 5 and 17)	361	839	2,542
Investments in unconsolidated subsidiaries and associated companies	404	395	2,845
Deferred tax assets (Note 14)	498	425	3,507
Asset for retirement benefits (Note 10)	1,655	1,300	11,655
Other assets	1,221	810	8,599
Total investments and other assets	4,139	3,769	29,148
Total	¥ 93,399	¥ 99,539	$ 657,739

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars (Note 1) 2023
Current liabilities:			
Payables (Note 17):			
Trade notes and accounts payable	¥ 3,672	¥12,988	$ 25,859
Unconsolidated subsidiaries and associated companies		1	
Other	3,980	4,821	28,028
Current portion of long-term debt (Note 9)	387	334	2,726
Income taxes payable (Note 14)	314	2,417	2,211
Contract liabilities	332	966	2,338
Accrued expenses	896	1,550	6,310
Other	1,827	2,027	12,866
Total current liabilities	11,408	25,104	80,338
Long-term liabilities:			
Long-term debt (Note 9)	770	884	5,422
Liability for retirement benefits (Note 10)	116	101	817
Deferred tax liabilities (Note 14)	615	316	4,331
Other	143	46	1,007
Total long-term liabilities	1,644	1,347	11,577
Commitments and contingent liabilities (Note 16)			
Equity (Notes 11, 12 and 24):			
Common stock – authorized, 158,000,000 shares; issued, 41,921,434 shares in 2023 and 42,465,134 shares in 2022	12,722	12,722	89,591
Capital surplus	10,949	11,711	77,106
Stock acquisition rights (Note 12)	275	352	1,937
Retained earnings	55,401	49,849	390,148
Treasury stock – at cost, 5,215,874 shares in 2023 and 4,809,548 shares in 2022	(7,638)	(6,608)	(53,789)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	167	108	1,176
Foreign currency translation adjustments	7,059	3,366	49,711
Defined retirement benefit plans	1,304	1,481	9,183
Total	80,239	72,981	565,063
Noncontrolling interests	108	107	761
Total equity	80,347	73,088	565,824
Total	¥93,399	¥99,539	$657,739

See notes to consolidated financial statements.

Consolidated Statement of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Net sales	¥78,196	¥87,368	$550,676
Cost of sales (Note 10)	47,472	53,526	334,310
Gross profit	30,724	33,842	216,366
Selling, general and administrative expenses (Notes 10 and 15)	20,373	19,917	143,472
Operating income	10,351	13,925	72,894
Other income (expenses):			
Interest and dividend income	361	180	2,542
Interest expense	(30)	(32)	(211)
Foreign exchange gain (loss) – net	23	(76)	162
Gain on sale of property, plant and equipment	15	33	105
Gain on revision of retirement benefit plan	203		1,430
Loss on disposal of property, plant and equipment	(78)	(20)	(549)
Other – net	256	202	1,803
Other income (expenses) – net	750	287	5,282
Income before income taxes	11,101	14,212	78,176
Income taxes (Note 14)**:**			
Current	2,693	3,893	18,965
Deferred	235	(70)	1,655
Total income taxes	2,928	3,823	20,620
Net income	8,173	10,389	57,556
Net (loss) income attributable to noncontrolling interests	(2)	90	(14)
Net income attributable to owners of the parent	¥ 8,175	¥10,299	$57,570
	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 2.t, 11 and 20)**:**			
Basic net income	¥218.89	¥271.14	$1.54
Diluted net income	218.17	270.01	1.54
Cash dividends applicable to the year	60.00	70.00	0.42

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Net income	¥ 8,173	¥10,389	$57,556
Other comprehensive income (Note 19)**:**			
Unrealized gain on available-for-sale securities	59	24	415
Foreign currency translation adjustments	3,690	3,893	25,986
Defined retirement benefit plans	(177)	1,004	(1,247)
Share of other comprehensive gain in associates	11	65	78
Total other comprehensive income	3,583	4,986	25,232
Comprehensive income	¥11,756	¥15,375	$82,788
Total comprehensive income attributable to (Note 19)**:**			
Owners of the parent	¥11,751	¥15,251	$82,754
Noncontrolling interests	5	124	34

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2023

	Thousands	Millions of yen										
							Accumulated other comprehensive income (loss)					
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock– at cost	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total equity
Balance, December 31, 2021	38,724	¥12,722	¥13,854	¥421	¥41,814	¥(7,067)	¥ 84	¥ (830)	¥ 477	¥61,475	¥ 253	¥61,728
Cumulative effect of accounting change					(11)					(11)		(11)
Restated balance	38,724	12,722	13,854	421	41,803	(7,067)	84	(830)	477	61,464	253	61,717
Net income attributable to owners of the parent					10,299					10,299		10,299
Cash dividends, ¥70.0 per share					(2,253)					(2,253)		(2,253)
Purchase of treasury stock	(1,221)					(1,958)				(1,958)		(1,958)
Disposal of treasury stock	153		9			206				215		215
Retirement of treasury stock			(2,211)			2,211						
Purchase of shares of consolidated subsidiaries			60							60		60
Sales of shares of consolidated subsidiaries			(1)							(1)		(1)
Net change in the year				(69)			24	4,196	1,004	5,155	(146)	5,009
Balance, December 31, 2022	37,656	¥12,722	¥11,711	¥352	¥49,849	¥(6,608)	¥108	¥3,366	¥1,481	¥72,981	¥ 107	¥73,088
Net income attributable to owners of the parent					8,175					8,175		8,175
Cash dividends, ¥60.0 per share					(2,623)					(2,623)		(2,623)
Purchase of treasury stock	(1,093)					(2,001)				(2,001)		(2,001)
Disposal of treasury stock	143		11			198				209		209
Retirement of treasury stock			(773)			773						
Net change in the year				(77)			59	3,693	(177)	3,498	1	3,499
Balance, December 31, 2023	36,706	¥12,722	¥10,949	¥275	¥55,401	¥(7,638)	¥167	¥7,059	¥1,304	¥80,239	¥ 108	¥80,347

	Thousands of U.S. dollars (Note 1)										
						Accumulated other comprehensive income (loss)					
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock– at cost	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Non-controlling interests	Total equity
Balance, December 31, 2022	$89,591	$82,472	$2,479	$351,049	$(46,535)	$ 761	$23,704	$10,430	$513,951	$753	$514,704
Net income attributable to owners of the parent				57,570					57,570		57,570
Cash dividends, $0.42 per share				(18,471)					(18,471)		(18,471)
Purchase of treasury stock					(14,092)				(14,092)		(14,092)
Disposal of treasury stock		78			1,394				1,472		1,472
Retirement of treasury stock		(5,444)			5,444						
Net change in the year			(542)			415	26,007	(1,247)	24,633	8	24,641
Balance, December 31, 2023	$89,591	$77,106	$1,937	$390,148	$(53,789)	$1,176	$49,711	$ 9,183	$565,063	$761	$565,824

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2023

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Operating activities:			
Income before income taxes	¥ 11,101	¥14,212	$ 78,176
Adjustments for:			
Income taxes – paid	(5,143)	(2,465)	(36,218)
Depreciation and amortization	2,710	2,414	19,085
Gain on revision of retirement benefit plan	(203)		(1,430)
(Allowance for) reversal of provision for doubtful receivables	42	(23)	296
Loss (gain) on sale and disposal of property, plant and equipment	63	(12)	444
Change in assets and liabilities			
Decrease (increase) in trade receivables	6,390	(1,728)	45,000
Decrease (increase) in inventories	4,711	(5,880)	33,176
Decrease in trade payables	(11,762)	(57)	(82,831)
(Decrease) increase in liability for retirement benefits	(392)	100	(2,762)
Other – net	(390)	962	(2,746)
Total adjustments	(3,974)	(6,689)	(27,986)
Net cash provided by operating activities	7,127	7,523	50,190
Investing activities:			
Purchases of property, plant and equipment	(2,321)	(2,170)	(16,345)
Proceeds from sale of property, plant and equipment	69	148	486
Purchases of marketable and investment securities		(200)	
Proceeds from sale of marketable and investment securities	600		4,225
Proceeds from sale of shares of subsidiaries and associates resulting in change in scope of consolidation	(383)		(2,697)
Other – net	(4)	(411)	(28)
Net cash (used in) provided by investing activities	(2,039)	(2,633)	(14,359)
Financing activities:			
Decrease in short-term bank loans	(15)		(106)
Repayments of long-term borrowings	(91)		(641)
Dividends paid to shareholders	(2,628)	(2,251)	(18,507)
Dividends paid to noncontrolling shareholders of consolidated subsidiaries	(6)	(10)	(42)
Payments for purchase of treasury stock	(2,002)	(1,960)	(14,099)
Disposal of treasury stock	61	119	430
Other – net	(373)	(522)	(2,627)
Net cash used in financing activities	(5,054)	(4,624)	(35,592)
Foreign currency translation adjustments on cash and cash equivalents	1,836	2,100	12,930
Net increase in cash and cash equivalents	1,870	2,366	13,169
Cash and cash equivalents at beginning of year	29,564	27,199	208,197
Cash and cash equivalents at end of year	¥ 31,434	¥29,565	$221,366

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2023

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, 2022 to conform to the classifications used in the year ended December 31, 2023.

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 ¥142 to $1, the approximate rate of exchange at December 31, 2023.

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, 2023, include the accounts of the Company and its 18 (17 in 2022) 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 2022) 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.

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 and prior-service cost that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 11 years no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

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

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.

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

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

n. Revenue Recognition

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

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

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

o. Research and Development Costs

Research and development costs are charged to income as incurred.

p. 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.

q. 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.

r. 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.

s. 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.

t. 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.

u. 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.

v. New Accounting Pronouncements

- “Accounting Standard for Current Income Taxes” (ASBJ Statement No. 27, revised on October 28, 2022)
- “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, revised on October 28, 2022)
- “Implementation Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, revised on October 28, 2022)

(1) Overview

These accounting standards and guidance establish the accounting classification for corporate taxes resulting from other comprehensive income that is subject to taxation, as well as the treatment of tax effects related to the sale of shares in subsidiaries, etc., when group taxation regime is applied.

(2) Scheduled date of application

The Group expects to apply the revised standards and the revised implementation guidance for annual periods beginning on or after January 1, 2025.

(3) Effects of the application of the standards and implementation guidance

The Group is currently evaluating the effects of applying the revised standards and the revised implementation guidance on its consolidated financial statements.

3. Significant Accounting Estimate

a. Deferred Tax Accounting

(1) Carrying amounts

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Deferred tax assets	¥498	¥425	$3,507

(2) Information on the significant accounting estimate

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

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

b. Impairment of Long-lived Assets

(1) Carrying amounts

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Long-lived assets	¥15,903	¥15,697	$111,993

(2) Information on the significant accounting estimate

The Group recognizes the carrying amounts of the relevant asset written down to the recoverable amount, which is the higher of fair value less cost to sell or the value in use, as an impairment loss when there is any indication that the asset or asset group may be impaired. No impairment of long-lived assets was recognized in 2023.

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

4. Accounting Change

(Application of "Implementation Guidance on Accounting Standard for Fair Value Measurement")

The Group began applying the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, revised on June 17, 2021; the "Guidance" in this section) since the beginning of the first quarter of the fiscal year and prospectively apply new accounting policies prescribed by the Guidance in accordance with the transitional provision in paragraph 27-2 of the Guidance. Application of this standard has no impact on the consolidated financial statements.

In the "(5). Financial Instruments Categorized by Fair Value Hierarchy, 17. Financial Instruments and Related Disclosures," investment trusts for the previous fiscal year are not stated in accordance with Paragraph 27-3 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement."

5. Marketable and Investment Securities

Marketable and investment securities at December 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Current:			
Trust fund investments and other		¥ 34	
Total		¥ 34	
Non-current:			
Equity securities	¥288	¥214	$2,028
Corporate and other bonds		562	
Trust fund investments and other	73	63	514
Total	¥361	¥839	$2,542

The costs and aggregate fair values of securities classified as available-for-sale at December 31, 2023 and 2022, were as follows:

	Millions of yen			
2023	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	¥104	¥148		¥252
Trust fund investments and other	29	44		73

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

	Thousands of U.S. dollars (Note 1)			
2023	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	$733	$1,042		$1,775
Trust fund investments and other	204	310		514

Proceeds from sales of available-for-sale securities for the years ended December 31, 2023 and 2022, were ¥600 million and nil, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended December 31, 2023, were ¥38 million and nil, and for the year ended December 31, 2022, were both nil.

6. Short-term Investments

Short-term investments at December 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Deposits over three-month period	¥287	¥505	$2,021
Total	¥287	¥505	$2,021

7. Trade Notes and Accounts Receivable

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

Receivables due after one year (less unearned interest) amounted to ¥2,047 million ($14,415 thousand) and ¥1,463 million at December 31, 2023 and 2022, respectively.

8. Inventories

Inventories at December 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Merchandise	¥ 932	¥ 865	$ 6,563
Finished products	13,611	13,497	95,852
Work in process	4,276	6,579	30,113
Raw materials and supplies	2,944	4,146	20,732
Total	¥21,763	¥25,087	$153,260

9. Long-term Debt

Long-term debt at December 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Lease obligations	¥ 67	¥ 67	$ 472
Long-term bank loans	37		261
Others	1,053	1,151	7,415
Total	1,157	1,218	8,148
Less: current portion	387	334	2,726
Long-term debt, less current portion	¥ 770	¥ 884	$5,422

Annual maturities of long-term debt at December 31, 2023, were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2024	¥ 387	$2,726
2025	287	2,021
2026	217	1,528
2027	76	535
2028	69	486
2029 and thereafter	121	852
Total	¥1,157	$8,148

10. Retirement and Pension Plans

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

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

(1) The changes in defined benefit obligation for the years ended December 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Balance at beginning of year	¥6,959	¥ 9,001	$49,007
Current service cost	69	166	486
Interest cost	74	95	521
Actuarial gains and losses	88	157	620
Benefits paid	(422)	(532)	(2,972)
Prior-service cost		(1,931)	
Decrease in accordance with shift to a defined contribution pension system	(901)		(6,345)
Others	2	3	14
Balance at end of year	¥5,869	¥ 6,959	$41,331

(2) The changes in plan assets for the years ended December 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Balance at beginning of year	¥8,158	¥8,871	$57,451
Expected return on plan assets	204	222	1,437
Actuarial gains and losses	309	(592)	2,176
Contributions from the employer	129	189	908
Benefits paid	(419)	(532)	(2,951)
Decrease in accordance with shift to a defined contribution pension system	(973)		(6,852)
Balance at end of year	¥7,408	¥8,158	$52,169

(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, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Funded defined benefit obligation	¥ 5,753	¥ 6,858	$ 40,514
Plan assets	(7,408)	(8,158)	(52,169)
Total	(1,655)	(1,300)	(11,655)
Unfunded defined benefit obligation	116	101	817
Net liability arising from defined benefit obligation	¥(1,539)	¥(1,199)	$(10,838)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Liability for retirement benefits	¥ 116	¥ 101	$ 817
Asset for retirement benefits	(1,655)	(1,300)	(11,655)
Net liability arising from defined benefit obligation	¥(1,539)	¥(1,199)	$(10,838)

(4) The components of net periodic benefit costs for the years ended December 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Service cost	¥ 69	¥ 166	$ 486
Interest cost	74	95	521
Expected return on plan assets	(204)	(222)	(1,437)
Recognized net actuarial gains and losses	(46)	250	(324)
Amortization of prior-service cost	(153)		(1,077)
Net periodic benefit costs	¥(260)	¥ 289	$(1,831)
Gains and losses in accordance with shift to a defined contribution pension system	¥(203)		$(1,430)

Note: The gain was included in other income.

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended December 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Prior-service cost	¥(404)	¥1,931	$(2,845)
Actuarial gains and losses	151	(499)	1,063
Total	¥(253)	¥1,432	$(1,782)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of December 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Unrecognized prior-service cost	¥(1,528)	¥(1,931)	$(10,761)
Unrecognized actuarial gains and losses	(332)	(181)	(2,338)
Total	¥(1,860)	¥(2,112)	$(13,099)

(7) Plan assets

a. Components of plan assets

Plan assets as of December 31, 2023 and 2022, consisted of the following:

	2023	2022
Debt investments	60%	34%
Equity investments	26	22
General account		11
Others	14	33
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, 2023 and 2022, are set forth as follows:

	2023	2022
Discount rate	1.1%	1.1%
Expected rate of return on plan assets	2.5%	2.5%
Expected rate of salary increase	9.8%	9.8%

(9) Defined contribution pension plan

The amounts of the required contribution to the defined contribution plans of the consolidated subsidiaries were ¥370 million ($2,606 thousand) and ¥224 million for the years ended December 31, 2023 and 2022, 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, 2023, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2014 I Stock Option	5 directors	23,100 shares	June 9, 2014	¥ 1	From June 9, 2014 to June 8, 2044
2015 I Stock Option	6 directors	17,100 shares	June 15, 2015	¥ 1	From June 15, 2015 to June 14, 2045
2016 I Stock Option	3 directors 3 executive officers	36,200 shares	June 13, 2016	¥ 1	From June 13, 2016 to June 12, 2046
2017 I Stock Option	3 directors 4 executive officers	24,700 shares	June 12, 2017	¥ 1	From June 12, 2017 to June 11, 2047
2017 II Stock Option	3 directors 6 executive officers 19 employees 8 directors of subsidiaries	148,000 shares	June 12, 2017	¥1,830	From July 1, 2019 to June 30, 2023
2018 I Stock Option	3 directors 4 executive officers	24,400 shares	June 11, 2018	¥ 1	From June 11, 2018 to June 10, 2048
2018 II Stock Option	1 director 6 executive officers 18 employees 8 directors of subsidiaries	175,000 shares	June 11, 2018	¥2,017	From July 1, 2020 to June 30, 2025
2019 I Stock Option	3 directors 4 executive officers	42,700 shares	April 15, 2019	¥ 1	From April 15, 2019 to April 14, 2049
2019 II Stock Option	7 executive officers 16 employees 8 directors of subsidiaries	161,000 shares	April 15, 2019	¥1,805	From June 1, 2021 to May 31, 2026
2020 I Stock Option	3 directors 5 executive officers	59,900 shares	April 13, 2020	¥ 1	From April 13, 2020 to April 12, 2050
2020 II Stock Option	5 executive officers 15 employees 8 directors of subsidiaries	138,000 shares	April 13, 2020	¥1,149	From June 1, 2022 to May 31, 2027
2021 Stock Option	5 executive officers 16 employees 8 directors of subsidiaries	141,000 shares	April 12, 2021	¥1,720	From June 1, 2023 to May 31, 2028
2022 Stock Option	4 executive officers 15 employees 8 directors of subsidiaries	128,000 shares	April 11, 2022	¥1,523	From June 3, 2024 to June 2, 2029
2023 Stock Option	15 employees 9 directors of subsidiaries	100,000 shares	April 10, 2023	¥1,841	From June 2, 2025 to June 1, 2030

The stock option activity was as follows:

	Shares						
	2014 I Stock Option	2015 I Stock Option	2016 I Stock Option	2017 I Stock Option	2017 II Stock Option	2018 I Stock Option	2018 II Stock Option
Year ended December 31, 2022							
Non-vested							
December 31, 2021 – Outstanding							
Granted							
Canceled							
Vested							
December 31, 2022 – Outstanding							
Vested							
December 31, 2021 – Outstanding	15,500	10,400	22,100	19,300	136,000	19,400	166,000
Vested							
Exercised			(3,700)	(3,000)		(2,200)	
Canceled				(8,000)	(10,000)		
December 31, 2022 – Outstanding	15,500	10,400	18,400	8,300	126,000	17,200	166,000
Year ended December 31, 2023							
Non-vested							
December 31, 2022 – Outstanding							
Granted							
Canceled							
Vested							
December 31, 2023 – Outstanding							
Vested							
December 31, 2022 – Outstanding	15,500	10,400	18,400	8,300	126,000	17,200	166,000
Vested							
Exercised	**(12,100)**	**(7,900)**	**(13,800)**		**(2,000)**	**(8,600)**	
Canceled					**(124,000)**		**(6,000)**
December 31, 2023 – Outstanding	**3,400**	**2,500**	**4,600**	**8,300**		**8,600**	**160,000**
Exercise price	¥ 1 $ 0	¥ 1 $ 0	¥ 1 $ 0	¥ 1 $ 0	¥1,830 $ 13	¥ 1 $ 0	¥2,017 $ 14
Average stock price at exercise	¥1,585 $ 11	¥1,585 $ 11	¥1,585 $ 11		¥1,821 $ 13	¥1,585 $ 11	
Fair value price at grant date	¥1,209 $ 9	¥1,995 $ 14	¥ 988 $ 7	¥1,384 $ 10	¥ 246 $ 2	¥1,644 $ 12	¥ 308 $ 2

	Shares						
	2019 I Stock Option	2019 II Stock Option	2020 I Stock Option	2020 II Stock Option	2021 Stock Option	2022 Stock Option	2023 Stock Option
Year ended December 31, 2022							
Non-vested							
December 31, 2021 – Outstanding				138,000	141,000		
Granted						128,000	
Canceled							
Vested				(138,000)			
December 31, 2022 – Outstanding					141,000	128,000	
Vested							
December 31, 2021 – Outstanding	34,000	161,000	59,900				
Vested				138,000			
Exercised	(3,800)		(6,600)	(32,000)			
Canceled	(15,100)		(19,200)				
December 31, 2022 – Outstanding	15,100	161,000	34,100	106,000			
Year ended December 31, 2023							
Non-vested							
December 31, 2022 – Outstanding					141,000	128,000	
Granted							**100,000**
Canceled						**(3,000)**	
Vested					**(141,000)**		
December 31, 2023 – Outstanding						**125,000**	**100,000**
Vested							
December 31, 2022 – Outstanding	15,100	161,000	34,100	106,000			
Vested					**141,000**		
Exercised		**(5,000)**		**(62,000)**	**(6,000)**		
Canceled		**(3,000)**			**(3,000)**		
December 31, 2023 – Outstanding	**15,100**	**153,000**	**34,100**	**44,000**	**132,000**		
Exercise price	¥ 1 $ 0	¥1,805 $ 13	¥ 1 $ 0	¥1,149 $ 8	¥1,720 $ 12	¥1,523 $ 11	¥1,841 $ 13
Average stock price at exercise		¥1,882 $ 13		¥1,828 $ 13	¥1,876 $ 13		
Fair value price at grant date	¥1,608 $ 11	¥ 352 $ 2	¥ 866 $ 6	¥ 157 $ 1	¥ 296 $ 2	¥ 226 $ 2	¥ 283 $ 2

The assumptions used to measure fair value of the 2023 Stock Options were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	31.363%
Estimated remaining outstanding period:	4.6 years
Estimated dividend:	¥60.00 per share
Risk-free interest rate:	(0.128)%

13. Restricted Stock Compensation

The restricted stock compensation outstanding as of December 31, 2023, was as follows:

Restricted Stock Compensation	Persons Granted	Number of Shares Granted	Date of Grant
2021 Restricted Stock Compensation	3 directors 4 executive officers	34,500 shares	April 22, 2021
2022 Restricted Stock Compensation	3 directors 4 executive officers	36,800 shares	April 21, 2022
2023 Restricted Stock Compensation	2 directors 6 executive officers	25,200 shares	April 20, 2023

Notes: 1. The transfer restriction period is from the grant date to the date immediately after retiring the position of either a director or an executive officer.

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

The restricted stock compensation activity was as follows:

	Shares		
	2021 Restricted Stock Compensation	2022 Restricted Stock Compensation	2023 Restricted Stock Compensation
Year ended December 31, 2022			
December 31, 2021 – Outstanding	34,500		
Granted		36,800	
Forfeited	(11,700)	(12,500)	
Released	(2,000)		
December 31, 2022 – Outstanding	20,800	24,300	
Year ended December 31, 2023			
December 31, 2022 – Outstanding	20,800	24,300	
Granted			**25,200**
Forfeited			
Released			
December 31, 2023 – Outstanding	20,800	24,300	**25,200**
Fair value price at grant date	¥1,622 $ 11	¥1,509 $ 11	¥1,713 $ 12

14. Income Taxes

The Company and its consolidated subsidiaries in Japan are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 29.9% for the years ended December 31, 2023 and 2022.

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, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Deferred tax assets			
Unrealized profit on inventories	¥ 876	¥ 953	$ 6,169
Depreciation	421	368	2,965
Inventories	345	208	2,430
Accrued bonuses	222	372	1,563
Liability for retirement benefits	123	265	866
Tax loss carryforwards	7		49
Other – net	622	741	4,380
Less valuation allowance	(296)	(258)	(2,084)
Total	2,320	2,649	16,338
Deferred tax liabilities			
Undistributed earnings of associated companies	(1,470)	(1,645)	(10,352)
Asset for retirement benefits	(555)	(631)	(3,909)
Other – net	(412)	(264)	(2,901)
Total	(2,437)	(2,540)	(17,162)
Net deferred tax assets (liabilities)	¥ (117)	¥ 109	$ (824)

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of December 31, 2023 and 2022, were as follows:

No material tax loss carryforwards were recognized in 2022.

	Millions of yen						
2023	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards						¥7	¥7
Less valuation allowances for tax loss carryforwards							
Net deferred tax assets relating to tax loss carryforwards						¥7	¥7

	Thousands of U.S. dollars						
2023	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards						$49	$49
Less valuation allowances for tax loss carryforwards							
Net deferred tax assets relating to tax loss carryforwards						$49	$49

Notes: 1. The amounts of tax loss carryforwards were multiplied by the normal effective statutory tax rates.
2. The deferred tax assets relating to tax loss carryforwards for the year ended December 31 2023, were ¥7 million. The Company expects to recover the total amount of the tax loss carryforwards through the estimated future taxable profits.

A reconciliation between the normal effective statutory tax rate for the years ended December 31, 2023 and 2022, and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	2023	2022
Normal effective statutory tax rate	29.9%	29.9%
Effect of foreign tax rate differences	(3.7)	(4.0)
Undistributed earnings of associated companies	3.4	2.6
Research and development tax credits	(2.2)	(0.8)
Foreign tax credit	(1.1)	(1.1)
Valuation allowance	(0.1)	(0.2)
Other – net	0.2	0.5
Actual effective tax rate	26.4%	26.9%

15. Research and Development Costs

Research and development costs charged to income were ¥1,849 million ($13,021 thousand) and ¥1,966 million for the years ended December 31, 2023 and 2022, respectively.

16. Leases

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

Obligations under noncancelable operating leases at December 31, 2023 and 2022, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Due within one year	¥1		$ 7
Due after one year	2		14
Total	¥3		$21

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. Derivatives are used mainly to manage foreign exchange risks, not for speculative purposes.

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

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

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

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

The proceeds from the borrowings are used as working capital, and the repayment deadline is up to two years after the fiscal year-end.

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

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

(3) Fair Values of Financial Instruments

In determining the fair value of financial instruments, various factors are taken into account. Therefore, adopting different assumptions or conditions could result in fluctuations in these values

(a) Fair Value of Financial Instruments

	Millions of yen			Thousands of U.S. dollars (Note 1)		
December 31, 2023	Carrying amount	Fair value	Unrealized gain/loss	Carrying amount	Fair value	Unrealized gain/loss
Marketable and investment securities	¥325	¥325		$2,289	$2,289	
Total	¥325	¥325		$2,289	$2,289	
Long-term bank loans	¥ 37	¥ 37	¥0	$ 261	$ 261	$0
Total	¥ 37	¥ 37	¥0	$ 261	$ 261	$0
Derivatives	¥ (0)	¥ (0)		$ (0)	$ (0)	

	Millions of yen		
December 31, 2022	Carrying amount	Fair value	Unrealized gain/loss
Marketable and investment securities	¥803	¥803	
Total	¥803	¥803	
Derivatives	¥229	¥229	

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

2. Long-term bank loans scheduled for repayment within one year are included and shown under “Long-term bank loans.”

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

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Unlisted equity securities	¥ 36	¥ 36	$ 253
Investments in unconsolidated subsidiaries and associated companies	301	293	2,120
Investments in limited partnerships		34	
Total	¥337	¥363	$2,373

4. As of December 31, 2023
Other marketable securities include investment trusts to which we have applied the treatment of considering the standard value as fair value under Paragraph 24-3 of the ‘Practical Guidance on Accounting Standard for Fair Value Measurement’ (Practical Issues Task Force No. 31, June 17, 2021).

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

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

	Millions of yen			
December 31, 2023	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	¥31,434			
Marketable and investment securities				
Short-term investments	287			
Trade receivables	16,548	¥2,041	¥6	
Total	¥48,269	¥2,041	¥6	

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

	Thousands of U.S. dollars (Note 1)			
December 31, 2023	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	$221,366			
Marketable and investment securities				
Short-term investments	2,021			
Trade receivables	116,535	$14,373	$42	
Total	$339,922	$14,373	$42	

(5) Financial Instruments Categorized by Fair Value Hierarchy

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

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

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

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

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

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

	Millions of yen			
December 31, 2023	Level 1	Level 2	Level 3	Total
Marketable and investment securities				
Available-for-sale securities:				
Equity securities	¥252			¥252
Investment trusts	73			73
Derivative transactions:				
Foreign currency forward contracts		¥(4)		(4)
Total assets	¥325	¥(4)		¥321
Derivative transactions:				
Foreign currency forward contracts		¥ 4		¥ 4
Total liabilities		¥ 4		¥ 4

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

December 31, 2023	Thousands of U.S. dollars (Note 1) Level 1	Level 2	Level 3	Total
Marketable and investment securities				
Available-for-sale securities:				
Equity securities	$1,775			$1,775
Investment trusts	514			514
Derivative transactions:				
Foreign currency forward contracts		$(28)		(28)
Total assets	$2,289	$(28)		$2,261
Derivative transactions:				
Foreign currency forward contracts		$ 28		$ 28
Total liabilities		$ 28		$ 28

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

December 31, 2023	Millions of yen Level 1	Level 2	Level 3	Total
Long-term bank loans		¥37		¥37
Total liabilities		¥37		¥37

December 31, 2023	Thousands of U.S. dollars (Note 1) Level 1	Level 2	Level 3	Total
Long-term bank loans		$261		$261
Total liabilities		$261		$261

Not applicable for the year ended December 31, 2022.

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

Marketable and investment securities
The fair values of listed equity securities and investment trusts are evaluated using quoted market price and classified as Level 1 because listed equity securities are traded in active markets.

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

Long-term bank loans
The fair values of Long-term bank loans are measured by using discounted present value techniques considering assumptions including expected future cash flows and discount rates taking into account maturity and credit risk, and are classified as Level 2.

18. Derivatives

Derivative transactions to which hedge accounting is not applied

At December 31, 2023	Millions of yen Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Selling	¥ 818		¥(4)	¥(4)
Buying	341		4	4
Total	¥1,159		¥(0)	¥(0)

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

At December 31, 2023	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	$5,761		$(28)	$(28)
Buying	2,401		28	28
Total	$8,162		$ (0)	$ (0)

19. Other Comprehensive Income

The components of other comprehensive income for the years ended December 31, 2023 and 2022, were as follows:

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars (Note 1) 2023
Unrealized gain (loss) on available-for-sale securities:			
Gains arising during the year	¥ 78	¥ 21	$ 549
Reclassification adjustments to profit or loss			
Amount before income tax effect	78	21	549
Income tax effect	(19)	3	(134)
Total	¥ 59	¥ 24	$ 415
Foreign currency translation adjustments:			
Adjustments arising during the year	¥3,690	¥3,893	$25,986
Reclassification adjustments to profit or loss			
Total	¥3,690	¥3,893	$25,986
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 221	¥1,182	$ 1,556
Reclassification adjustments to profit or loss	(473)	250	(3,331)
Amount before income tax effect	(252)	1,432	(1,775)
Income tax effect	75	(428)	528
Total	¥ (177)	¥1,004	$ (1,247)
Share of other comprehensive income in an associate:			
Gains arising during the year	¥ 11	¥ 65	$ 78
Total	¥ 11	¥ 65	$ 78
Total other comprehensive income	¥3,583	¥4,986	$25,232

20. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2023 and 2022, were as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income attributable to owners of the parent	Weighted-average shares	EPS	
Year ended December 31, 2023				
Basic EPS				
Net income attributable to common shareholders	**¥ 8,175**	**37,350**	**¥218.89**	**$1.54**
Effect of dilutive securities				
Convertible bonds				
Stock acquisition rights		**123**		
Diluted EPS				
Net income for computation	**¥ 8,175**	**37,473**	**¥218.17**	**$1.54**
Year ended December 31, 2022				
Basic EPS				
Net income attributable to common shareholders	¥10,299	37,983	¥271.14	
Effect of dilutive securities				
Convertible bonds				
Stock acquisition rights		159		
Diluted EPS				
Net income for computation	¥10,299	38,142	¥270.01	

21. Revenue Recognition

(a) Disaggregated information of revenues from contract with customers

	Millions of yen		
December 31, 2023	Special Products	Machine Tools	Total
Japan	**¥ 2,730**	**¥ 5,596**	**¥ 8,326**
Europe	**3,724**	**26,515**	**30,239**
USA	**8,509**	**14,609**	**23,118**
Asia	**1,148**	**15,365**	**16,513**
Revenues from contracts with customers	**¥16,111**	**¥62,085**	**¥78,196**

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

	Thousands of U.S. dollars (Note 1)		
December 31, 2023	Special Products	Machine Tools	Total
Japan	**$ 19,225**	**$ 39,409**	**$ 58,634**
Europe	**26,225**	**186,725**	**212,950**
USA	**59,923**	**102,880**	**162,803**
Asia	**8,085**	**108,204**	**116,289**
Revenues from contracts with customers	**$113,458**	**$437,218**	**$550,676**

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

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

The basis for understanding revenue is described in Note 2 (n), “Revenue Recognition.”

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

(1) Balance of contract liabilities, etc.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Receivables from contracts with customers (beginning balance)	¥22,750	¥18,553	$160,211
Receivables from contracts with customers (ending balance)	18,595	22,750	130,950
Contract liabilities (beginning balance)	966	801	6,803
Contract liabilities (ending balance)	332	966	2,338

Contract liabilities are mainly related to Advance received.

The amount of revenue recognized in the fiscal year under review included in the balance of contract liabilities at the beginning of the current fiscal year was ¥966 million ($6,803 thousand).

(2) Transaction prices allocated to remaining performance obligation

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

22. Segment Information

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

1. Description of reportable segments

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

“Special Products” produces and sells POS printers and others.

“Machine Tools” produces and sells CNC automatic lathes and others.

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

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

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

	Millions of yen				
	Reportable Segment				
December 31, 2023	Special Products	Machine Tools	Total	Reconciliations	Consolidated
Sales to external customers	¥16,111	¥62,085	¥78,196		¥78,196
Intersegment sales or transfers					
Total	16,111	62,085	78,196		78,196
Segment profit	¥ 1,953	¥10,350	¥12,303	¥ (1,952)	¥10,351
Segment assets	¥14,139	¥64,648	¥78,787	¥14,612	¥93,399
Other items:					
Depreciation	496	2,046	2,542	168	2,710
Investments in associates	301		301		301
Increase in property, plant and equipment and intangible assets	502	2,042	2,544	136	2,680

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

	Thousands of U.S. dollars (Note 1)				
	Reportable Segment				
December 31, 2023	Special Products	Machine Tools	Total	Reconciliations	Consolidated
Sales to external customers	$113,458	$437,218	$550,676		$550,676
Intersegment sales or transfers					
Total	113,458	437,218	550,676		550,676
Segment profit	$ 13,753	$ 72,887	$ 86,640	$ (13,746)	$ 72,894
Segment assets	$ 99,570	$455,268	$554,838	$102,901	$657,739
Other items:					
Depreciation	3,493	14,409	17,902	1,183	19,085
Investments in associates	2,120		2,120		2,120
Increase in property, plant and equipment and intangible assets	3,535	14,380	17,915	958	18,873

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

Related information by geographical area at December 31, 2023 and 2022, consisted of the following:

(1) Net Sales

	Millions of yen					
December 31, 2023	Japan	USA	Germany	China	Others	Total
	¥8,402	**¥21,952**	**¥10,422**	**¥10,333**	**¥27,087**	**¥78,196**

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

	Thousands of U.S. dollars (Note 1)					
December 31, 2023	Japan	USA	Germany	China	Others	Total
	$59,169	**$154,592**	**$73,394**	**$72,768**	**$190,753**	**$550,676**

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

(2) Property, Plant and Equipment

	Millions of yen				
December 31, 2023	Japan	China	Thailand	Others	Total
	¥7,501	**¥3,341**	**¥2,710**	**¥2,351**	**¥15,903**

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

	Thousands of U.S. dollars (Note 1)				
December 31, 2023	Japan	China	Thailand	Others	Total
	$52,824	**$23,528**	**$19,085**	**$16,556**	**$111,993**

23. Related Party Disclosures

Transactions of the Company with related parties for the years ended December 31, 2023 and 2022, were as follows:

Year ended December 31, 2023

Not applicable

Year ended December 31, 2022

Related party	Category	Description of transaction	Millions of yen
Hajime Sato	Chairman of the Board	Exercise of stock options	¥12
Fumio Masuda	Executive Officer	Exercise of stock options	¥11

24. Subsequent Event

a. Appropriation of Retained Earnings

The following appropriation of retained earnings at December 31, 2023, was approved at the Company's Board of Directors' meeting held on February 22, 2024:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥30 ($0.211) per share	**¥1,101**	**$7,754**

b. The Renovation of Domestic Factories in the Machine Tools Segment

Star Micronics Co., Ltd. ("Star Micronics" or "the Company") announced that its Board of Directors has resolved to renovate its Kikugawa Factory and construct a new factory as a part of its Machine Tools Segment activities. Brief details are presented as follows:

1. Purpose

(1) Star Micronics will look to increase its production capacity to meet the growing global demand for Swiss-Type CNC Automatic Lathes. The Company will also build a new factory in Japan to assemble high-value-added products and cutting-edge models. In addition to putting in place a monthly production capacity of 100 units, efforts will be made to strengthen the Company's ability to respond to geopolitical risks through these means.

(2) Star Micronics' current Kikugawa Factory building was constructed more than 35 years ago. The decision to renovate the factory is therefore geared toward improving the Company's BCP by strengthening its response to earthquakes and other disasters.

(3) Star Micronics will work to increase operational and production efficiency, improve quality, and reduce costs by automating operations through measures such as the introduction of robots and the promotion of Digital Transformation (DX) to create a smart factory.

(4) Star Micronics will install solar panels and other equipment and promote environment-friendly design and facilities in a bid to realize sustainable factories. Through these endeavors, the Company aims to obtain ZEB certification and contribute to the realization of a sustainable society.

2. Overview of the Kikugawa Factory Renovation

(1) Name: Kikugawa South Factory (tentative)
(2) Location: Misawa, Kikugawa City, Shizuoka Prefecture
(3) Activities: Manufacture of core components
(4) Structural overview: Steel-framed three-story building
(5) Building area: Approx. 10,300m^2 (approx. 3,120 tsubo)
(6) Total floor area: Approx. 13,700m^2 (approx. 4,150 tsubo)
(7) Total project expenses: Approx. ¥10,000 million ($70,422,535)
(8) Start of construction: July 2024 (planned)
(9) Start of operations: November 2025 (planned)

3. Overview of the New Factory

(1) Name: Makinohara Factory (tentative)
(2) Location: Nunohikihara, Makinohara City, Shizuoka Prefecture
(3) Activities: Body assembly of cutting-edge models
(4) Structural overview: Steel-framed two-story building
(5) Building area: Approx. 6,900m^2 (approx. 2,090 tsubo)
(6) Total floor area: Approx. 9,100m^2 (approx. 2,760 tsubo)
(7) Total project expenses: Approx. ¥5,000 million ($35,211,268)
(8) Start of construction: May 2025 (planned)
(9) Start of operations: July 2026 (planned)

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INDEPENDENT AUDITOR'S REPORT

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

<Audit of Consolidated Financial Statements>

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, 2023, 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, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

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

Key Audit Matter

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

Appropriateness of the timing of revenue recognition for sales from the machine tools business	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As stated in Note 22 "Segment Information" to the consolidated financial statements, sales from the machine tools business were 62,085 million yen, which accounted for 79.4% of consolidated net sales of 78,196 million yen recorded in the consolidated statement of income for the current year. Furthermore, sales from the machine tools business were primarily from the sales of products of Star Micronics Co., Ltd. (the "Company"), Star CNC Machine Tool Corp. and Shanghai Xingang Machinery Co., Ltd., which are significant subsidiaries. As stated in Note n. "Revenue Recognition" of Note 2 "Summary of Significant Accounting Policies" to the consolidated financial statements, the Group deems the performance obligation to be satisfied when a customer has obtained control of the product based on contractual conditions and recognizes revenues at the time products are shipped, products are inspected by a customer, or at a time specified in trade terms. Revenue related machine tools is recognized on an inspection basis and a certain number of installation hours are needed for a test run and a specification confirmation by a customer before a customer has the ability to use the machine tools. When the installation of machine tools does not proceed as initially planned, the sales may not be recorded in the originally planned period. Additionally, the amounts of sales and profits per unit for machine tools are large, and recording such sales in an inappropriate period may significantly impact the sales and profit for the year. Furthermore, in the current year, there is a potential risk of accelerated posting of sales in an effort to meet annual performance targets because of the decrease in revenue resulting due to heightened concerns over the economic recession in Europe and America and the delayed economic recovery in China. Therefore, auditing the appropriateness of the timing of revenue recognition for sales from the machine tools business requires a more careful consideration. Based on above, we identified the appropriateness of the timing of revenue recognition for sales from the machine tools business of the Company and its two significant subsidiaries as a key audit matter.	Our audit procedures related to the appropriateness of the timing of revenue recognition for sales from the machine tools business included the following, among others: (1) Evaluation of internal controls We evaluated the design and operating effectiveness of the following internal controls related to appropriate timing of recording sales that are recognized based on contractual conditions with customers, approval of sales inputted in the sales management system, which includes assessing the appropriateness of sales dates by checking with evidence such as proofs of shipment, bills of lading, and acceptance inspection documents. (2) Substantive procedures We analyzed the monthly and yearly changes in sales by customer and by product for the machine tools business and performed the following procedures: • Examined whether the timing in which revenue is recognized for transactions is appropriate in terms of the contractual conditions established in contracts with customers or purchase orders. • Tested significant sales recorded close to the year end by inspecting purchase orders, contracts, and evidence which supported the appropriate timing of revenue recognition, such as proofs of shipment, bills of lading, and acceptance inspection documents. • Examined the acceptance inspection documents for sales recorded on an inspection basis to determine whether there was a signature for the acceptance inspection from the person in charge of the customer, and whether the acceptance dates were consistent with the installation/test run dates. • Examined whether there were large costs incurred after acceptance inspections, which were normally not expected to occur. • We inspected the sales ledger after the year end and examined whether there were any significant negative sales entries that would cast doubt on the appropriateness of the timing of revenue recognition.

Other Information

Management is responsible for the other information. The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the ANNUAL REPORT 2023, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

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

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

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

<Fee-Related Information>

Fees for audit and other services for the year ended December 31, 2023, which were charged by us and our network firms to Star Micronics Co., Ltd. and its subsidiaries were ¥123 million and ¥29 million, respectively.

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
April 27, 2024

Stock Information

as of December 31, 2023

Total Number of Authorized Shares	158,000,000 shares
Total Number of Issued Shares	41,921,434 shares*
Paid-in Capital	12,721,939,515 yen
Number of Shareholders	10,920

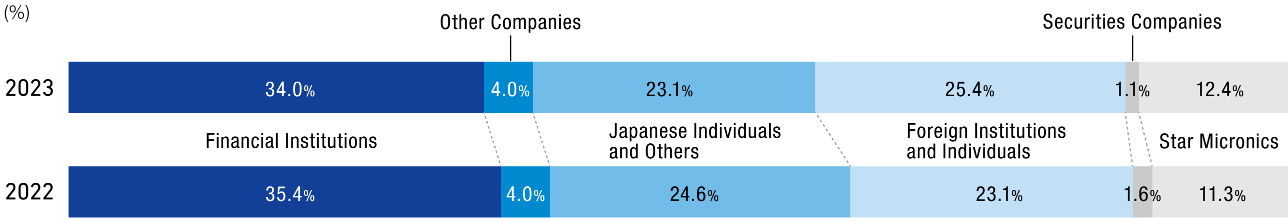
Stock Listing Prime Market Section of the Tokyo Stock Exchange

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

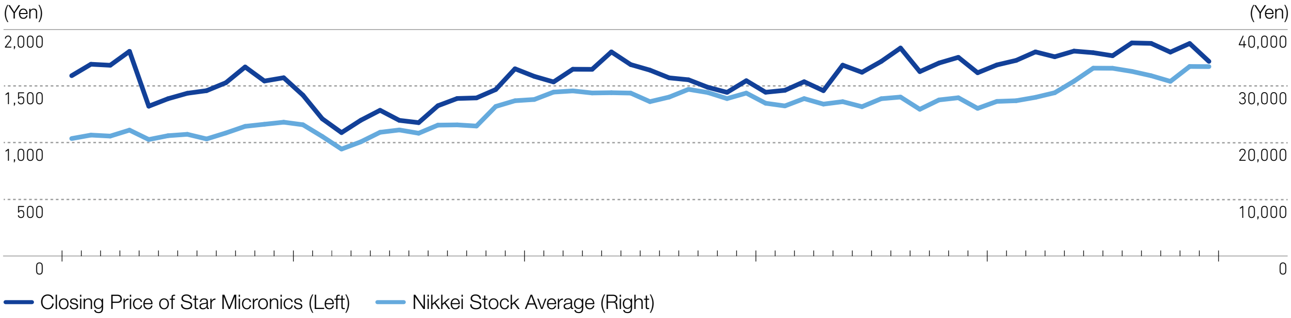
* The decrease in the number of shares issued was due to a retirement of 543,700 shares.

COMPOSITION OF SHAREHOLDERS

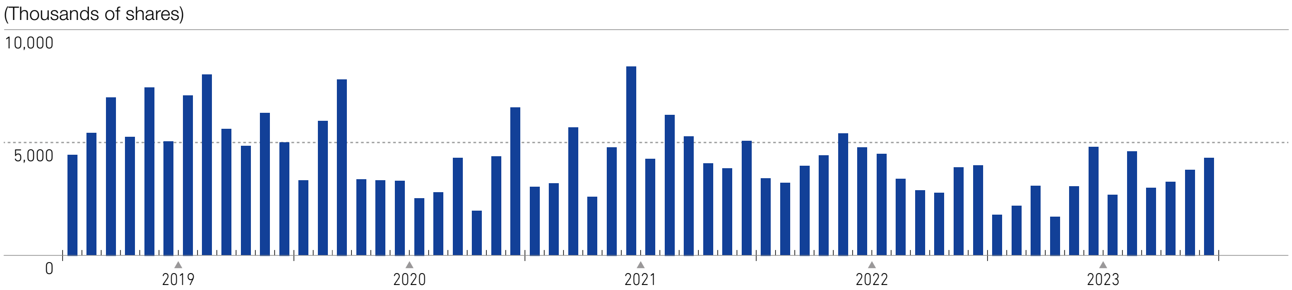
(%)



STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)



TRADING VOLUME



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

STOCK PRICE

(Yen)

Year	2019	2020	2021	2022	**2023**
At year-end	1,575	1,654	1,549	1,619	**1,719**
High	1,893	1,720	1,893	1,858	**1,936**
Low	1,258	945	1,416	1,318	**1,560**