



STAR MICRONICS CO., LTD.

Grand Design for a New Age

ANNUAL REPORT 2021 (PDF Version)

For the year ended December 31, 2021



PROFILE

Since its establishment in 1950, Star Micronics Co., Ltd. has worked diligently to “generate the greatest impact from the least materials.”

In order to achieve its aspirations, the Company has continued to deliver a steady stream of high-added-value products based on its core technologies of small-scale precision processing and assembly. Currently, Star Micronics is engaged in the Special Products business including point-of-sale (POS) printers and the Machine Tools business including CNC automatic lathes.

From each of the sales and manufacturing perspectives, the Company is also actively engaged in global business development. Today, Star Micronics maintains a ratio of overseas sales to all sales of 88% and a ratio of overseas production to all production of 87%.

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

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Forward-looking Statements

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

CORPORATE PHILOSOPHY

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

PURPOSE

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

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

MANAGEMENT POLICY

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

ACTION GUIDELINES



Act with initiative
and courage



Continue learning



Pursue technology

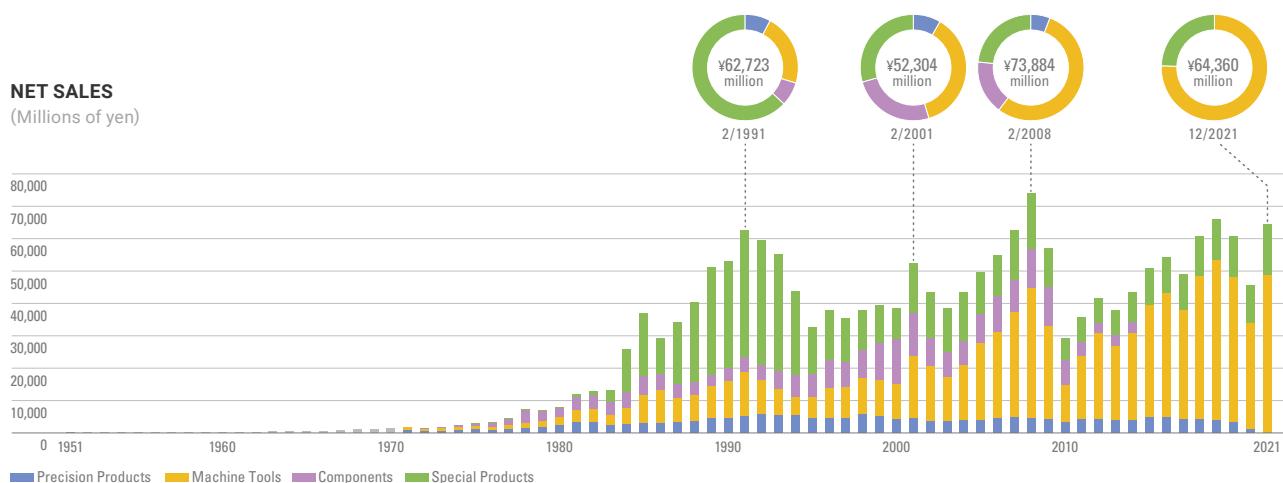


Focus on team
productivity

History

- 1950** • **Star Seisakusho Co., Ltd.**
Established in Tegoshi, Shizuoka (current Tegoshi, Suruga-ku, Shizuoka-shi) with a capital of ¥500,000, six employees and five automatic lathes, began the manufacture and sale of such products as wristwatch and camera parts as a small workshop factory.
- 1958** • **Began sales of automatic lathes.**
After finalizing automatic lathes, began sales with the catchphrase, "automatic lathes made by users for users."
- 1960** • **Tokai Seimitsu Co., Ltd.**
Established Tokai Seimitsu Co., Ltd. in a partnership with Citizen Watch Co., Ltd.
Evolved as a factory specializing in the manufacture of watch screws.
- 1962** • **Began the export of automatic lathes.**
Exported the first unit to the UK. Cultivated overseas sales channels and steadily increased market share.
- 1965** • **Changed the company's name to Star Micronics Co., Ltd.**
Absorbed Tokai Seimitsu Co., Ltd. and changed the company's name to Star Micronics Co., Ltd.
- 1971** • **Began the manufacture and sales of electronic buzzers.**
Widely adopted as a buzzer for clocks. Electronic buzzers extensively used in mobile phones as an incoming call sound source. Captured a large market share throughout the 1990s.
- 1976** • **Began the manufacture and sales of NC automatic lathes.**
Began the manufacture and sale of NC automatic lathes. Incorporating innovative ideas and mechanisms, extremely well received for precision accuracy.
- 1979** • **Began the manufacture and sale of small printers.**
Entering the digital printer field, began the manufacture and sale of products in a bid to respond to the information age and the widespread use of personal computers.
- 1981** • **Listed company stock on the Second Section of the Nagoya Stock Exchange.**
Began the manufacture and sale of large-scale printers.
Entered the printer market in earnest.
- 1984** • **Listed company stock on the First Section of the Nagoya Stock Exchange. (Delisted in 2006.)**
Built the new Kikugawa Factory.
Built a new machine tools production base in Kikugawa-cho, Ogasa-gun (current Kikugawa-shi), Shizuoka Prefecture.
Installed state-of-the-art rationalization system machines and contributed to improved productivity by enabling continuous automated operations.
- 1989** • **Established Star Micronics Manufacturing Dalian Co., Ltd.**
Established a subsidiary in Dalian, China to engage in the manufacture of printers.
Became the fourth foreign company to enter the Dalian Economic and Technological Development Zone.
- 1990** • **Listed company stock on the First Section of the Tokyo Stock Exchange.**
Listed on the First Section of the Tokyo Stock Exchange after 40 years of operation.
(Shift to the Prime Market from the First Section due to the market restructuring of the Tokyo Stock Exchange in April 2022.)
- 2000** • **Began the manufacture and sale of microphones, speakers and receivers.**
Developed a full lineup of micro audio components for mobile phones, and aggressively cultivated the market.

- 2004** ● **Began the manufacture of CNC lathes as finished products at Star Micronics Manufacturing Dalian Co., Ltd.**
Began assembling finished products in China ahead of competitors to reduce costs and strengthen production capacity.
- 2012** ● **Established Star Micronics Manufacturing (Thailand) Co., Ltd.**
Established a subsidiary to manufacture machine tools in Nakhon Ratchasima, Thailand. Set up a machine tools production system across three bases in Japan, China and Thailand in response to the expansion of emerging markets in Asia.
- 2013** ● **Launched Apple® iOS Compatible MFi Certified Printer**
Developed a printer that can be connected to iOS devices via Bluetooth® amid the growing global demand for tablet POS systems using smartphones and tablet devices. Buoyed by the rush of inquiries prior to release, product widely accepted by the market.
*1 Apple is a trademark of Apple Inc., registered in the U.S. and other countries.
*2 IOS is a trademark or registered trademark of Cisco in the U.S. and other countries and is used under license.
*3 The Bluetooth® word mark and logos are registered trademarks owned by Bluetooth SIG, Inc. and any use of such marks by Star Micronics Co., Ltd. is under license.
- 2018** ● **Established Star Marketing Japan Co., Ltd.**
Established Star Marketing Japan Co., Ltd. as a sales subsidiary in Shimbashi, Tokyo in a bid to further develop and expand the mPOS market in Japan. Through activities in the city center, responded quickly to the diverse needs of customers.
- 2020** ● **Completed construction of a new head office**
Completed construction of a new head office with a view to upgrading and expanding the Company's Business Continuity Plan (BCP) by taking full advantage of such high disaster prevention capabilities as a seismic isolation structure that can handle long-periods of seismic motion and an emergency power supply that can continue for a long period of time. In addition, actively introduced new work styles through a variety of measures including the adoption of information communication technology (ICT) to help create a paperless office and free address system.
- **Completed construction of the Solution Center**
Completed construction of the Solution Center to strengthen before- and after-sales service and product quality. As a new base for the Machine Tools Segment, the Solution Center can serve as a permanent display of various automatic lathes while accommodating multiple functions. The Center is equipped with a wide range of showrooms, a dedicated NC training room, and evaluation, testing and other rooms enabling the use of actual machines for instruction and process testing.
- 2022** ● **Shift to the Prime Market from the First Section of the Tokyo Stock Exchange.**



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

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

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

*4 In conjunction with its decision to dissolve the Precision Products Division, Star Micronics Co., Ltd. took steps to revise the classification of its business segments in 2020. Effective from 2021, the Company reclassified the three Special Products, Machine Tools, and Precision Products segments into the two Special Products and Machine Tools segments.

Highlights

Financial Highlights

Financial Highlights

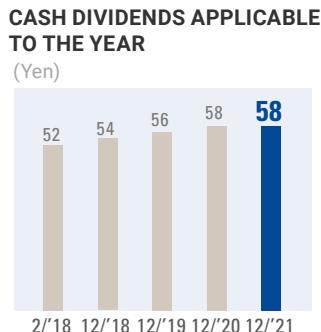
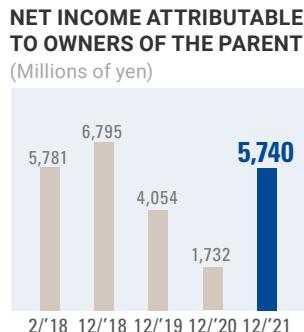
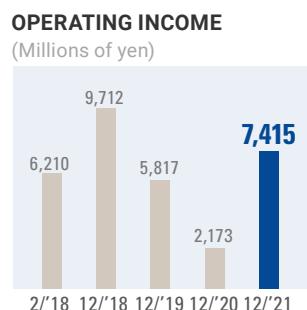
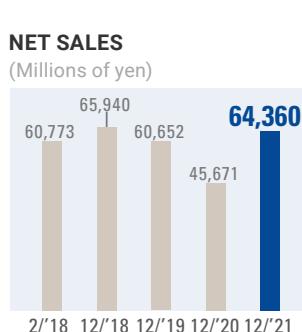
Related Information by Geographical Region

Star Micronics Co., Ltd. and Consolidated Subsidiaries

For the years ended December 2019, 2020 and 2021

	Millions of yen			Change (%)	Thousands of U.S. dollars
	2019	2020	2021		
For the year :					
Net sales	¥60,652	¥45,671	¥64,360	40.9	\$559,652
Operating income	5,817	2,173	7,415	241.3	64,478
Net income attributable to owners of the parent	4,054	1,732	5,740	231.5	49,913
Return on sales	6.7%	3.8%	8.9%		
Capital expenditures	3,067	1,908	1,926	0.9	16,748
Depreciation and amortization	2,419	2,255	2,127	-5.7	18,496
At year-end :					
Total assets	76,394	71,622	82,361	15.0	716,183
Total equity	50,790	49,822	61,728	23.9	536,765
Equity ratio	65.2%	68.2%	74.1%		
	Yen			Change (%)	U.S. dollars
Per share :					
Basic net income	¥113.72	¥49.07	¥150.83	207.4	\$1.31
Diluted net income	99.34	42.46	142.38	235.3	1.24
Cash dividends applicable to the year	56.00	58.00	58.00	—	0.50
Stock information :					
Common shares issued	45,091,334	45,091,334	44,091,334		
Number of shareholders	9,466	9,103	10,727		

Note : The rate of ¥115 to US\$1, prevailing on December 31, 2021, has been used for translation into U.S. dollar amounts.



Highlights

Related Information by Geographical Region

Financial Highlights

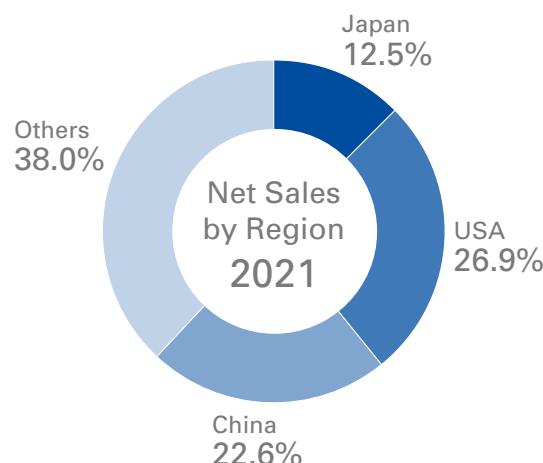
Related Information by Geographical Region

Star Micronics Co., Ltd. and Consolidated Subsidiaries
For the years ended December 2019, 2020 and 2021

Net Sales by Geographical Region

	Millions of yen			Change (%)	Thousands of U.S. dollars
	2019	2020	2021		
Japan	¥10,628	¥5,754	¥8,072	40.3	\$70,191
USA	16,718	13,708	17,315	26.3	150,565
China	10,558	10,437	14,543	39.3	126,461
Others	22,748	15,772	24,430	54.9	212,435
Total	60,652	45,671	64,360	40.9	559,652

Note : The rate of ¥115 to US\$1, prevailing on December 31, 2021, has been used for translation into U.S. dollar amounts.



Japan

(Millions of yen)



USA

(Millions of yen)



China

(Millions of yen)



Others

(Millions of yen)



To Our Shareholders

Mamoru Sato

Representative Director,
President and CEO



Grand Design for a New Age

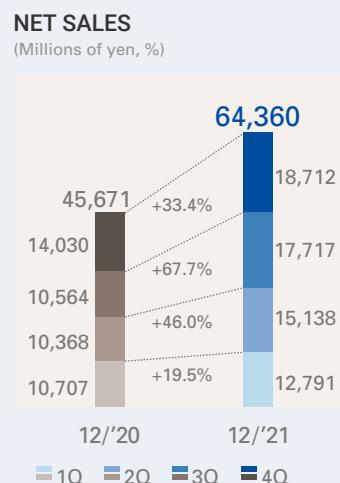
Despite the ongoing impact of COVID-19, results in both the Machine Tools and Special Products segments were robust in 2021.

Coinciding with the Company's shift to the Prime Market of the Tokyo Stock Exchange, Star Micronics has put in place a new medium-term management plan in 2022. Guided by this plan, the Star Micronics Group aims to help bring about a sustainable society and enhance corporate value by putting into practice the core concept of the Company and employees growing together and contributing to society.

01 Operating Results in 2021

Amid the ongoing impact of COVID-19, economic conditions were affected by a variety of factors including the outbreak of new variants, tight supply of semiconductors and other components, and delays in distribution in 2021. Despite these difficult conditions, the economy in general exhibited a recovery trend due to upswings in vaccination rates across a wide range of countries, the successful implementation of various economic policies, and a host of other factors. In Asia, the Chinese economy generally remained strong. In the U.S. and Europe, economic conditions continued to recover steadily despite concerns surrounding the reemergence and further spread of the virus. Despite some signs of weakness, the Japanese economy also continued to recover. Turning to the major markets in which the Star Micronics Group operates, demand in the mainstay Machine Tools segment increased sharply both in Japan and overseas on the back of the economic recovery worldwide. In this regard, demand for POS printers was especially strong in the U.S.

Under these circumstances, Star Micronics reported sales of ¥64,360 million in 2021, up 40.9% year on year, owing largely to the substantial increase in Machine Tools Segment sales. On the earnings front, operating income jumped 241.3%, to ¥7,415 million, in line with such factors as the substantial increase in sales. Net income attributable to owners of the parent surged 231.5%, to ¥5,740 million.



02 Business Overview

Despite the impact of logistics delays in the U.S. market, sales increased substantially in the Machine Tools Segment owing to robust trends across a wide range of industries as a result of the recovery in overall economic conditions. In Europe, sales grew significantly. This was largely attributable to the recovery in automobile-related sales. As far as Asia is concerned, sales increased substantially. In addition to sustained strong sales of telecommunication-related products in China, this was also due to the recovery in automobile-, medical-, and other-related sales. On the domestic front, sales in Japan grew significantly on the back of robust mainstay automobile-related and other sales.

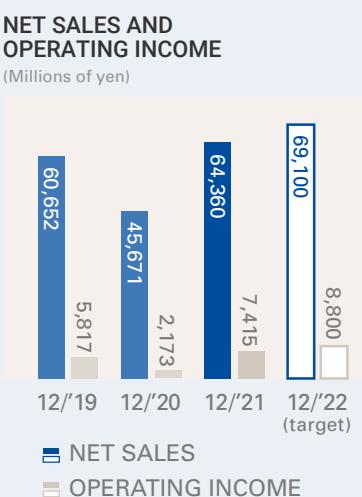
Despite the impact of tight component supply and delays in distribution, sales increased substantially in the Special Products Segment. This largely reflected robust food delivery-related sales in the U.S. market. In Europe, sales were strong, especially for large-lot projects. In Japan, sales increased significantly due to strong mPOS demand.

03 Outlook for the Following Fiscal Year

With the end of COVID-19 nowhere in sight owing to the incidence of new variants, the outlook for the global economy remains uncertain. This uncertainty is due to a variety of factors including tight supply of semiconductors and other components as a result of the rapid recovery in demand, the sharp rise in resource prices, and the disruption in logistics across various regions. In contrast, the current overall economic recovery is projected to continue owing to the upswing in vaccination rates, the success of stimulus, fiscal, and other measures implemented by each country, and recovery in consumption that had stalled as a result of the pandemic.

Under these circumstances, robust capital expenditure demand is expected to continue both in Japan and overseas. As a result, sales in the mainstay Machine Tools Segment are projected to increase in the next fiscal year. While mPOS demand triggered by the increased use of mobile terminals and food delivery demand resulting from the changes to people's lifestyles owing to COVID-19 are expected to remain at a high level, sales in the Special Products Segment are anticipated to decline due to the significant impact of tight semiconductor and other component supply.

Based on the aforementioned, and as far as the outlook for consolidated financial results is concerned, sales in the next fiscal year are forecast to reach ¥69.1 billion, up 7.4% compared with the fiscal year under review. From a profit perspective, operating income is projected to climb 18.7%, to ¥8.8 billion, and net income attributable to owners of the parent to grow 11.5%, to ¥6.4 billion.



04 About the Medium-Term Management Plan

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

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

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

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

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

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



05 Corporate Governance and Shareholder Returns

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

Star Micronics positions the return and distribution of profits to stakeholders as an important management priority. The Company's basic policy is to take into consideration the consolidated shareholders' dividend on equity (DOE) ratio based on a consolidated total payout ratio of at least 50%, including the repurchase of its own shares. Based on this policy, the decision was made to pay a fiscal period-end dividend of ¥29 per share at the end of the fiscal year under review. As a result, including the ¥29 interim dividend, the annual dividend for the fiscal year came to ¥58.

With regard to its shareholder return policy for the future, Star Micronics has decided to target a consolidated total payout ratio of at least 50%, including the repurchase of its own shares, with the aim of paying a stable annual dividend of at least ¥60 per share. Based on this policy, plans are in place to pay an annual dividend of ¥60 per share for the following fiscal year (¥30 per share for each of the interim and fiscal year-end dividends), up ¥2 per share compared with the fiscal year under review.

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

CASH DIVIDENDS
PER SHARE

(Yen)



March 2022

Mamoru Sato

Representative Director,
President and CEO

Medium-Term Management Plan

Star Micronics put in place a new medium-term management plan in February 2022.

Taking stock of its Corporate Philosophy, Purpose, Management Policy, and Action Guidelines, the Company has outlined its Vision for 2030 based on the structure of this Philosophy and created a roadmap to realize this Vision.

Vision for 2030

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

Special Products Segment

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

Machine Tools Segment

Generate continuous cash as a core business

New Business

Evolve as a promising mainstay third pillar of business

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

Vision Roadmap



Special Products Segment

- Make deeper inroads into the mPOS/food delivery market
 - Uncover peripheral areas
 - Strengthen software technologies through various measures including M&As
-
- Commercialize peripheral areas
 - Nurture the service business into an earnings stream using software technology
-
- Become a total solution provider for store operations

Machine Tools Segment

- Strengthen the production system
 - Delve into hardware technologies
 - Promote the adoption of software technology
-
- Expand in areas outside the automobile industry
 - Commercialize peripheral areas
 - Strengthen software technologies
-
- Establish a position as a leading manufacturer of automatic lathes

New Business

- Uncover and commercialize new segments mainly through M&As
-
- Uncover and commercialize new segments by utilizing the Company's own resources and collaboration with other companies
-
- Create new business segments
 - Target net sales of ¥10.0 billion
 - Target operating income of ¥1.5 billion

System Maintenance

- Strengthen the management platform
 - Strengthen R&D structures and systems
 - Reform human resource systems
-
- Put in place a diversity management structure and systems
 - Reform the corporate culture based on new human resource structures and systems
-
- Continue to strengthen the management platform

First Medium-Term Management Plan 2022-2024

In formulating the First Medium-Term Management Plan, Star Micronics has positioned the three years from 2022 to 2024 as a period for building a foundation for change in a bid to realize its Vision for 2030. KPIs and business strategies for each segment are presented as follows.

KPI	Actual (Past three years cumulative/average)	Target (Next three-year cumulative/average)
Operating cash flow (cumulative)	¥21.5 billion	¥20.0 billion–¥25.0 billion
Operating income per employee (consolidated)	¥3.38 million	¥6.00 million
ROE	7.4%	10.0% or more
Ratio of R&D expenses to net sales	2.9%	5.0%
Education and training outlays per employee (non-consolidated)*	¥39,124	¥50,000

* Reference: Average cost per company: ¥35,628 according to the FY2020 Survey on Education and Training Costs undertaken by SANRO Research Institute, Inc.

[Special Products Segment]

First Medium-Term Management Plan 2022-2024 KPIs

	Actual (Past three-year average)	Target (Next three-year average)
ROA	16.0%	20.0%
Operating income ratio	13.6%	18.0%

Principal Initiatives

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

[Machine Tools Segment]

First Medium-Term Management Plan 2022-2024 KPIs

	Actual (Past three-year average)	Target (Next three-year average)
ROA	10.3%	15.0%
Operating income ratio	11.8%	15.0%

Principal Initiatives

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

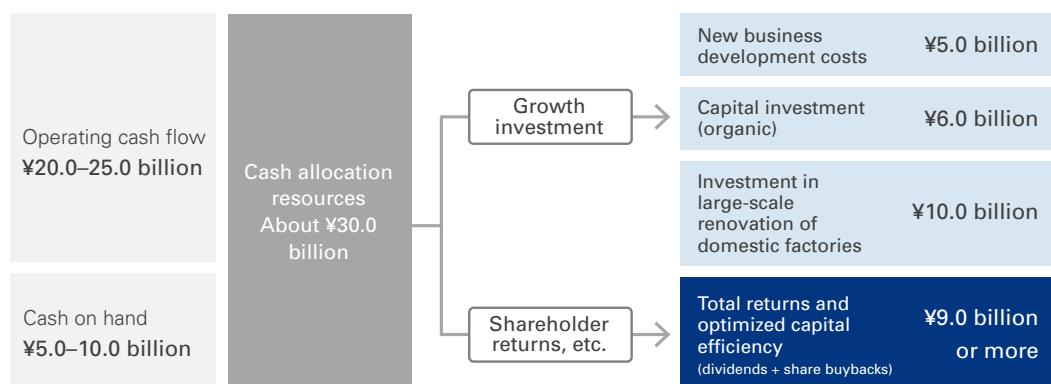
[New Business]

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

Cash Allocation

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

Fund Allocation Plan (FY12/2022–FY12/2024)



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

Sustainability

Star Micronics has also put in place its Sustainability Policy while at the same time identifying specific material issue targets from an ESG perspective.

Sustainability Policy

The Star Micronics Group aims to help bring about a sustainable society and enhance corporate value by putting into practice the core concept of the Company and employees growing together and contributing to society.

- Guided by a longer-term vision for the Group, we will provide society with new value created using our proprietary technologies.
- We will draw on the global network we have built up over the years to address common issues facing society worldwide.
- We will realize fair and highly transparent management through dialogue and cooperation with all of our stakeholders.

Initiatives to Address Material Issues

	Material issues	Targets	SDGs
E Environment	<ul style="list-style-type: none">■ Addressing climate change by reducing CO₂ emissions■ Creating environmentally friendly products	<ul style="list-style-type: none">■ Reducing greenhouse gas emissions■ Promoting disclosure under TCFD and other frameworks■ Creating new businesses and products leveraging proprietary technologies	 
S Society	<ul style="list-style-type: none">■ Fostering and utilizing diverse human resources	<ul style="list-style-type: none">■ Setting targets for women in management and monitoring progress; career training and support■ Expanding and sustaining education and training programs for global HR development	 
G Governance	<ul style="list-style-type: none">■ More rigorous corporate governance	<ul style="list-style-type: none">■ Building a more fair and transparent governance framework by addressing Corporate Governance Code guidelines	

Full details of the Company's Medium-Term Management Plan are provided at the following URL.

https://star-m.jp/eng/ir/files/Notice_Regarding_Formulation_of_Medium-Term_Management_Plan.pdf

Review of Operations

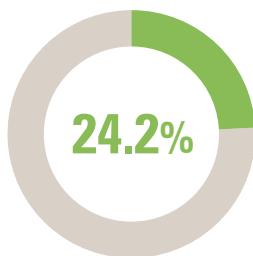
Special Products



Point-of-sale (POS) printers used at such places as department stores, supermarkets and restaurants are the main products in the Special Products Segment. In recent years, demand for mobile POS (mPOS) printers that are compatible with tablet terminals, smartphones, and other devices has been expanding. mPOS products are available under the mCollection™ brand, which not only includes printers but also such peripheral devices as cash drawers and communication devices.

SPECIAL PRODUCTS

SALES BY SEGMENT



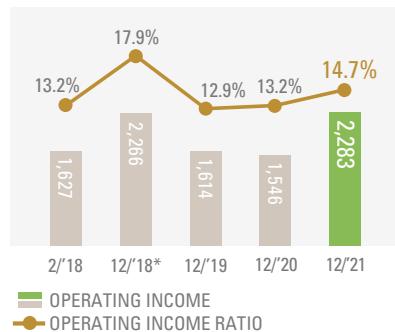
NET SALES

(Millions of yen)



OPERATING INCOME & OPERATING INCOME RATIO

(Millions of yen, %)



Business Environment and Results in 2021

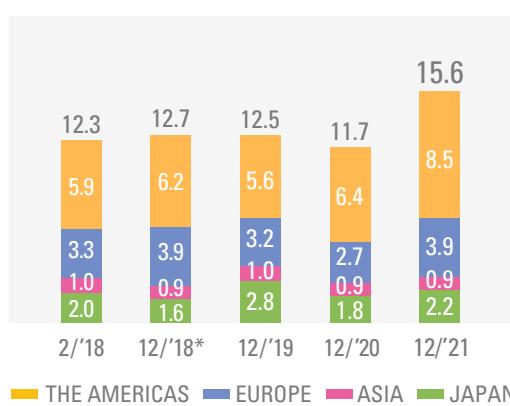
Despite the impact of a shortage in the supply of components and parts as well as delays in distribution, sales of POS printers increased substantially in the U.S. market in 2021. This was largely due to robust sales trends in the mPOS and food delivery sectors as a result of the recovery in market conditions. In the European market, sales were strong owing mainly to large orders. On the domestic front, sales increased significantly on the back of robust trends in demand for mPOS applications in Japan.

As a result, net sales in the Special Products Segment increased 32.8% compared with the previous year, to ¥15,570 million (US\$135,391 thousand). From a profit perspective, operating income grew 47.7% year on year, to ¥2,283 million (US\$19,852 thousand).

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

SPECIAL PRODUCTS SEGMENT SALES BY GEOGRAPHICAL REGION

(Billions of yen)



THE AMERICAS EUROPE ASIA JAPAN

Outlook for 2022 and Business Strategies

While mPOS-related and food delivery sector demand is projected to continue at a high level in each region owing to the spread of mobile devices and growth as a result of the COVID-19 pandemic, respectively, sales in the Special Products Segment are forecast to decline in 2022 due to the significant impact of shortages in the supply of such components and parts as semiconductors.

From a business results perspective, net sales are projected to come in at ¥13,340 million, down 14.3% compared with the year under review. On the earnings front, operating income is forecast to decline 31.2% year on year, to ¥1,570 million.

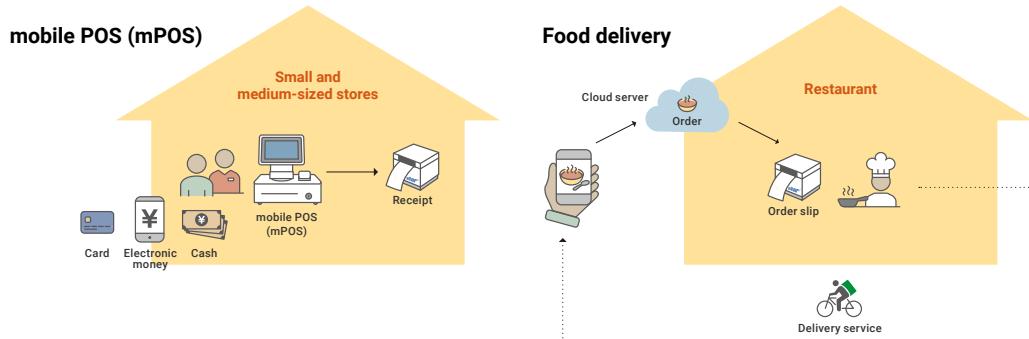


POS printer mC-Print3

Sales Volume of POS Printers by Region

(Thousands of units)

	2020	2021	Change
The Americas	263	360	36.9%
Europe	128	164	28.1%
Asia	45	48	6.7%
Japan	58	61	5.2%
Total	495	634	28.1%



Release of a New Lineup of POS-related Products

Star Micronics has commenced overseas sales of TSP100IV, the latest model of its best-selling TSP100 series, which boasts total sales of 2.5 million units worldwide (a decision on the commencement of sales in Japan is yet to be determined). Equipped with a dual USB and LAN interface, the TSP100IV is a 3-inch (80mm paper width) thermal printer that features a distinctive polygon design that is different from existing products. In this regard, the TSP100IV is distinguished by its beautiful, compact appearance and a new cloud communication function. In addition, the Company has released the Wireless LAN Unit, a new product that allows customers who are already using an mC-Print® series printer with wired communication specifications to easily switch from a wired to a wireless LAN. Star Micronics' new Wireless LAN Unit enables wireless network connection in stores where LAN wiring work is difficult or problematic due to complicated wiring. In addition to increasing the flexibility of printer installation, this product also offers a stylish design and supports the 5GHz band, which is resistant to the interference of radio waves generated by microwave ovens. As a result, the Wireless LAN Unit can be used safely in the kitchens of restaurants.

Through the introduction of new products, Star Micronics will further contribute to improving customer convenience and expand its market share in the POS field.



TSP100IV

Review of Operations

Machine Tools

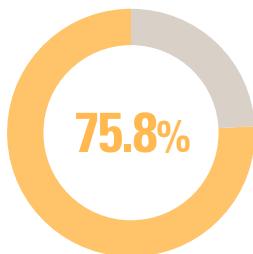


In the Machine Tools Segment, Star Micronics' Swiss-Type CNC Automatic Lathes enjoy a high market share worldwide. Ideally suited for precision component processing with high accuracy, the Company's products in this segment are used in the processing of a wide range of components including automotive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

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

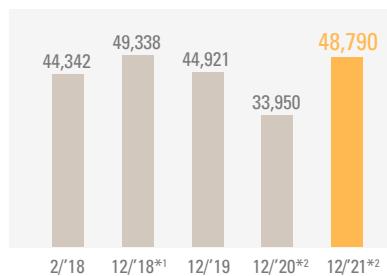
MACHINE TOOLS

SALES BY SEGMENT



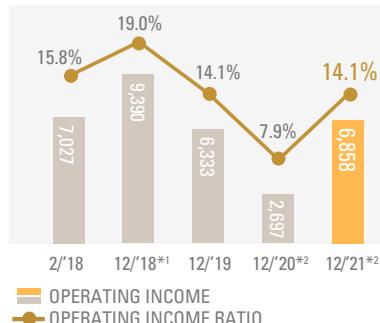
NET SALES

(Millions of yen)



OPERATING INCOME & OPERATING INCOME RATIO

(Millions of yen, %)



Business Environment and Results in 2021

Sales of CNC automatic lathes in the U.S. market increased substantially in 2021. Despite the impact of delays in distribution, this increase was mainly due to robust trends across a wide range of industries on the back of a recovery in the overall economy. In the European market, sales also increased significantly owing largely to the positive automotive-related turnaround. In addition to the ongoing robust telecommunications-related trend, automotive-, medical-, and other-related sales in China recovered. As a result, sales grew substantially in the Asian market. In Japan, sales enjoyed a major upswing, largely reflecting strong sales of mainstay automotive-related products.

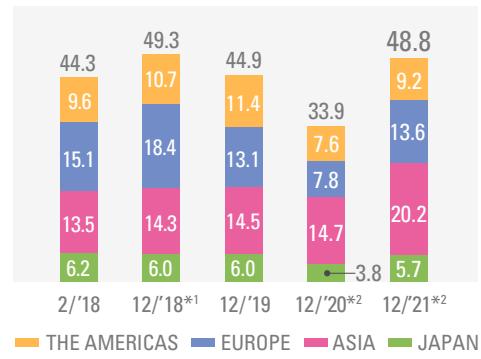
Accounting for these factors, net sales in the Machine Tools Segment climbed 43.7% compared with the previous year, to ¥48,790 million (US\$424,261 thousand) while operating income jumped 154.2% year on year, to ¥6,858 million (US\$59,635 thousand)*2.

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

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

MACHINE TOOLS SEGMENT SALES BY GEOGRAPHICAL REGION

(Billions of yen)



THE AMERICAS EUROPE ASIA JAPAN

Outlook for 2022 and Business Strategies

Sales in the mainstay Machine Tools Segment are forecast to increase in 2022. This is mainly due to ongoing robust capital investment demand both in Japan and overseas.

As far as business results are concerned, net sales in the Machine Tools Segment are forecast to climb 14.3% compared with the year under review, to ¥55,760 million. Operating income is anticipated to increase 35.2% year on year, to ¥9,270 million.



CNC Swiss-Type
Automatic Lathe SX-38 Type B

Launch of New Swiss-type Automatic Lathe Products

Star Micronics has newly launched the large diameter machining SR-32JIII as well as small diameter machining SL-7 and SL-10 as new models in its SR and SL Series of Swiss-type automatic lathes.

The SR-32JIII, which focuses on addressing large diameter machining needs, is the latest model in the market acclaimed, best-selling SR-32J series. Equipped with three types of power tools for the gang-type tool post for front-side machining, the SR-32JIII allows customers to select the optimum tooling layout tailored to their application needs. In terms of operability and workability, steps have been taken to incorporate structures and functions to the greatest extent possible in order to ensure further improvements.

Moreover, the SL-7 and SL-10 can process material diameters up to a maximum of 7 mm and 10 mm, respectively. Each model augments Star Micronics' multi-processing capacity and has been developed to address increasingly complex and diverse small diameter machining needs mainly in the information and communication, automotive and medical fields.

Moving forward, Star Micronics will work to upgrade and expand its lineup in a bid to increase its share in the machine tools market.



SL-10

Solution Center

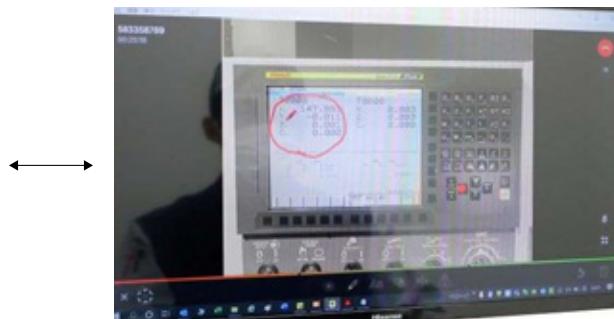
Equipped with a full range of functions, Star Micronics has established the Solution Center in Kikugawa City, Shizuoka Prefecture, for the purpose of providing before and after-sales services to users, collecting technical information, and strengthening marketing in the Machine Tool Segment.

The Solution Center is equipped with a showroom, a dedicated NC school room for machine operation training, evaluation testing and measurement rooms, reception rooms equipped with a web conference system, a conference room that can accommodate approximately 100 people, and a sales office for the Machine Tools Segment. In addition, the Solution Center places considerable emphasis on such aspects as web-based information dissemination and service. The Center can also help upgrade and expand online services while serving as a venue for holding online private shows and providing remote support via customers' smartphones.

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



The customer's smartphone



Star Micronics sales staff PC

For more information about the Solution Center, please refer to the following URL.

<https://star-m.jp/eng/products/lathe/solutioncenter/index.html>

A video of the Solution Center is also provided at the following URL.

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



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

Shanghai Xingang Machinery Co., Ltd.

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

Established in the Free Trade Zone in Shanghai, China in December 2002, Shanghai Xingang engages in sales activities in the Chinese domestic market. In response to the recent strong demand in the Asian market, Star Micronics will establish the Solution Center in conjunction with the relocation of its sales subsidiary to further strengthen the sales capability of machine tool products throughout Asia, and will utilize the Center as a base for providing a full range of services and solutions. The Solution Center is scheduled to open in September 2022.

Image of the showroom



Star Micronics AG

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

Corporate Governance

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

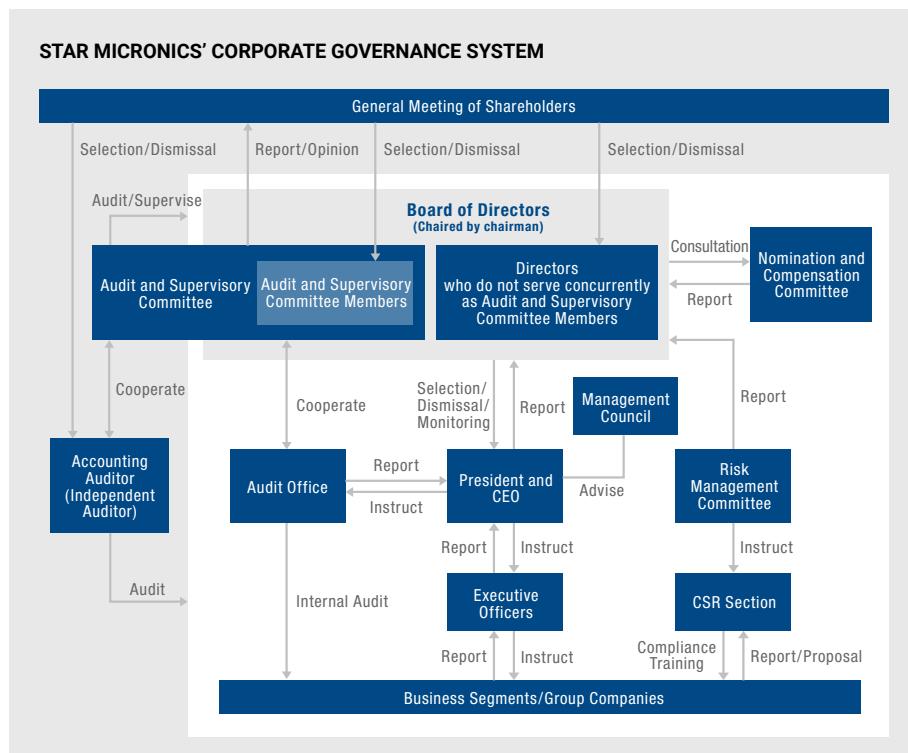
Star Micronics has adopted the structure of a company with an audit and supervisory committee in order to strengthen the supervisory function of its Board of Directors and to enhance its corporate governance capabilities.

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

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

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

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



Compensation of Directors and Audit and Supervisory Committee Members

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

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

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

The total amount of bonuses paid to Directors is calculated by multiplying profit attributable to owners of the parent by a payment rate determined by the Company so as to function as an incentive to improve business performance. The amount of each bonus paid to individual Directors (excluding Directors who concurrently serve as Audit and Supervisory Committee Members and Outside Directors) shall be determined in line with the status and position of each Director based on the calculation method determined by the Board of Directors. After consulting with the Nomination and Compensation Committee, an arbitrary advisory body that is comprised of a majority of independent Outside Directors, and in line with the Committee's report, the Company resolved that the payment of Directors' bonuses fell within the scope of performance-based compensation stipulated under Article 34, Paragraph 1.3 of Japan's Corporation Tax Act at a Board of Directors' meeting held on March 24, 2022.

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

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

Breakdown of Compensation of Directors and Audit and Supervisory Committee Members

Director rank	Total compensation, etc. (¥ million)	Total compensation by category (¥ million)					Headcount of those eligible
		Fixed compensation	Performance-based Compensation	Stock Options	Restricted Stock Compensation	Non-monetary compensation, etc. in items on the left	
Directors (excluding Audit and Supervisory Committee Members) (excluding Outside Directors)	190	116	30	10	33	43	3
Directors (Audit and Supervisory Committee Members) (excluding Outside Directors)	—	—	—	—	—	—	—
Outside Directors and Audit and Supervisory Committee Members	25	25	—	—	—	—	4

Notes:

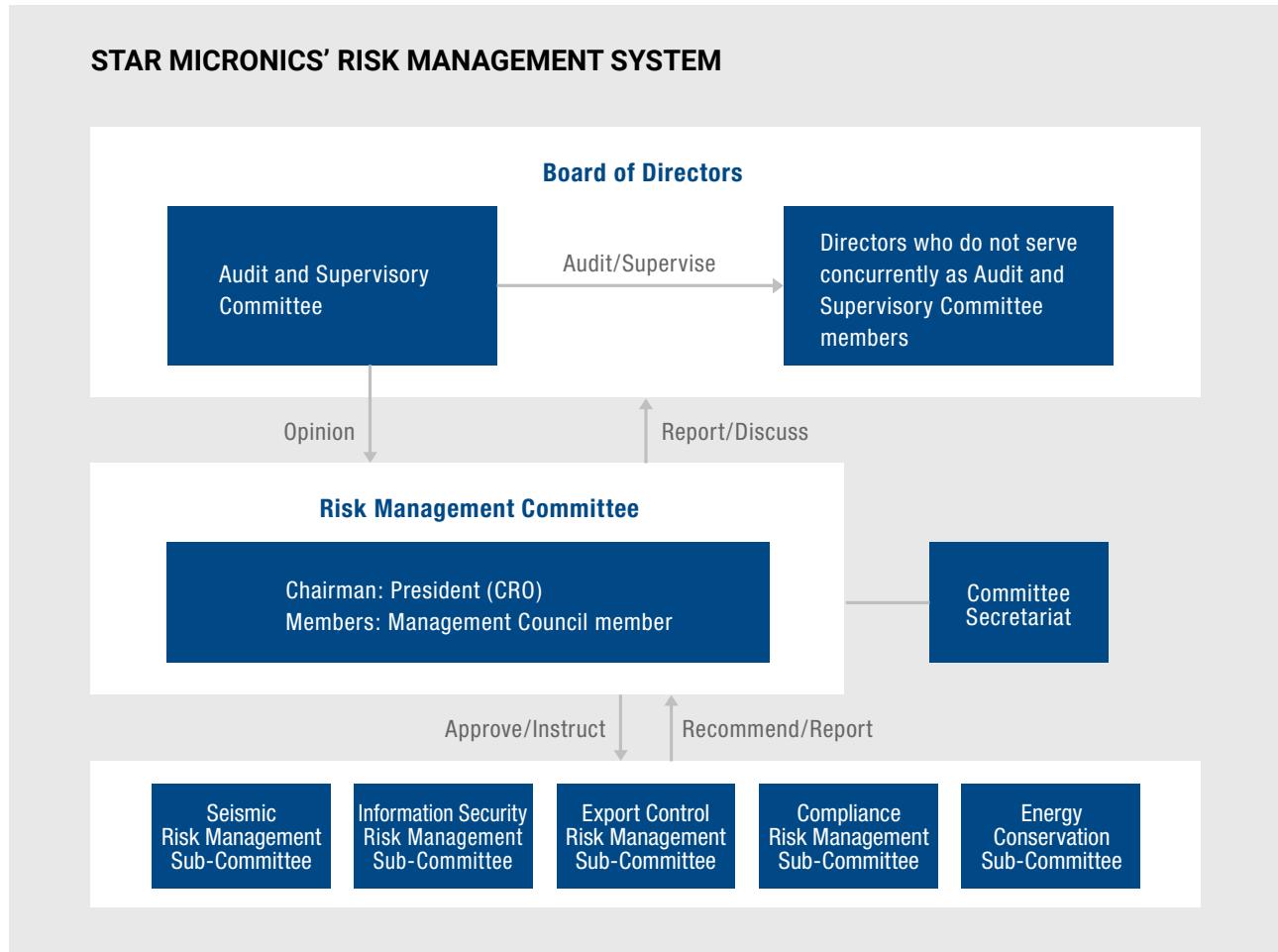
1. The figures for Stock Option Compensation (Stock Compensation-type Stock Options and Ordinary Stock Options), Restricted Stock Compensation and Performance-based Compensation are the monetary amounts recorded as expenses in the fiscal year under review. Meanwhile, Stock Compensation-type Stock Options were abolished in line with a resolution at the Company's 96th Ordinary General Meeting of Shareholders held on March 25, 2021.
2. The aforementioned amount of Director compensation does not include salaries paid to Directors who are also employees of the Company.
3. Star Micronics is scheduled to pay ¥55 million in total to one Director of the Board upon their retirement. These payments are for severance of a retirement benefit allowance for Directors that was discontinued pursuant to a resolution of the Ordinary General Meeting of Shareholders for the 82nd Period held on May 24, 2007.

Internal Control System

Star Micronics strives to maintain an internal control system that will enable proper and efficient management to drive a continuous increase in corporate value. To strengthen internal control, the Star Micronics Global Charter of Corporate Conduct was issued, setting out the Group's basic policies on compliance. Since then, the Star Micronics Global Code of Conduct was drawn up for employees to follow, and we have been working to establish rules and organizational structures to ensure compliance at every level of our activities. In addition, a department dedicated to corporate social responsibility (CSR) spearheads our compliance activities. This department plays a central role in providing reminders and education on compliance to the Group's Directors, Executives and Employees, and is charged with holding periodic committee meetings and monitoring the status in regard to the Group's adherence with all relevant laws and regulations. Star Micronics also has an appropriate internal control and whistleblower system for ensuring the reliability of its financial reporting, as stipulated in the Financial Instruments and Exchange Law of Japan.

Risk Management

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



Consolidated Eleven-Year Summary

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

	Dec. 2021	Dec. 2020	Dec. 2019
For the year:			
Net sales	¥64,360	¥45,671	¥60,652
Cost of sales	41,756	30,349	38,330
Selling, general and administrative expenses	15,189	13,149	16,505
Operating income	7,415	2,173	5,817
Other income (expenses) – net	549	715	(485)
Income before income taxes	7,964	2,888	5,332
Income taxes	2,174	1,131	1,486
Net income (loss) attributable to noncontrolling interests	50	25	(208)
Net income attributable to owners of the parent	5,740	1,732	4,054
Net cash provided by operating activities	9,601	6,843	5,124
Net cash provided by (used in) investing activities	741	(1,253)	(3,150)
Free cash flows	10,342	5,590	1,974
Net cash (used in) provided by financing activities	(7,559)	(2,136)	(3,015)
Per share:			
Basic net income	¥150.83	¥ 49.07	¥113.72
Diluted net income	142.38	42.46	99.34
Cash dividends applicable to the year	58.00	58.00	56.00
At year-end:			
Current assets	¥65,707	¥54,893	¥56,830
Net property, plant and equipment	14,309	14,272	15,542
Total assets	82,361	71,622	76,394
Long-term liabilities	1,128	1,266	9,675
Total equity	61,728	49,822	50,790
Stock exchange price per share of common stock:			
Highest	¥1,893	¥1,720	¥1,893
Lowest	1,416	945	1,258
Selected financial indicators:			
Equity ratio (%)	74.1	68.2	65.2
Return on equity (%)	10.4	3.5	8.3
Dividend payout ratio (%)	38.5	118.2	49.2
Dividend on equity (%)	3.9	4.1	4.1

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

Millions of yen (Except for per share data)

Dec. 2018	Feb. 2018	Feb. 2017	Feb. 2016	Feb. 2015	Feb. 2014	Feb. 2013	Feb. 2012
¥65,940	¥60,773	¥48,937	¥54,458	¥50,958	¥43,482	¥37,858	¥41,654
40,478	38,511	30,825	33,558	31,355	28,047	24,683	25,753
15,750	16,052	14,505	15,165	14,126	12,829	11,595	11,948
9,712	6,210	3,607	5,735	5,477	2,606	1,580	3,953
(1,029)	149	224	(383)	605	40	2,140	(724)
8,683	6,359	3,831	5,352	6,082	2,646	3,720	3,229
1,764	487	572	1,530	1,285	1,400	1,330	717
124	91	78	101	101	103	90	85
6,795	5,781	3,181	3,721	4,696	1,143	2,300	2,427
6,089	8,923	5,338	3,107	4,326	2,597	483	4,466
(2,950)	(5,013)	813	(1,074)	(2,501)	(2,455)	(1,908)	(393)
3,139	3,910	6,151	2,033	1,825	142	(1,425)	4,073
(3,766)	(2,926)	139	(2,180)	(1,568)	(1,394)	(1,202)	(2,092)
¥186.04	¥155.68	¥ 81.77	¥ 87.98	¥111.36	¥ 27.17	¥ 54.66	¥ 56.94
163.42	136.90	74.69	87.69	111.05	27.14		
54.00	52.00	48.00	46.00	44.00	34.00	30.00	26.00
¥59,914	¥59,635	¥53,172	¥50,367	¥50,533	¥41,233	¥35,827	¥38,302
15,521	14,076	12,926	14,360	15,309	14,327	13,476	10,289
79,935	77,363	68,351	67,828	70,261	59,303	52,564	51,925
10,046	9,697	9,935	2,021	617	524	303	407
49,312	47,447	43,755	50,200	51,903	45,698	40,710	36,980
Yen							
¥2,270	¥2,480	¥1,770	¥2,238	¥1,885	¥1,422	¥988	¥958
1,332	1,588	1,023	1,125	1,115	857	647	657
60.3	60.1	62.8	72.7	72.4	75.5	76.1	70.2
14.3	12.9	6.9	7.4	9.8	2.7	6.0	6.7
29.0	33.4	58.7	52.3	39.5	125.1	54.9	45.7
4.1	4.3	4.1	3.9	3.9	3.4	3.3	3.0

Management's Discussion and Analysis

OVERVIEW (Years ended December 31, 2021 and 2020)

Business Environment

In 2021, economic conditions exhibited an overall recovery trend. Despite the outbreak of new variants amid the impact of COVID-19, and various other factors including shortages in the supply of such components and parts as semiconductors as well as delays in distribution, this overall recovery was due mainly to the uptick in vaccination rates and success of economic policies implemented in each country. In Asia, China's economy generally remained firm. Despite concerns surrounding further spread of the pandemic, economic conditions in both the U.S. and Europe progressed toward a steady recovery. On the domestic front, the economy in Japan continued its positive turnaround notwithstanding certain indications of weakness.

Net Sales

	2020	2021	(Millions of yen) Change (%)
	¥45,671	¥64,360	40.9

In each of the major markets in which the Star Micronics Group operates, a sharp increase in demand for the Group's mainstay machine tools overseas and in Japan was seen. At the same time, demand for POS printers was strong especially in the U.S. market.

Operating Income

	2020	2021	(Millions of yen) Change (%)
	¥2,173	¥7,415	241.3

Operating income came in at ¥7,415 million owing mainly to the substantial increase in net sales.

Net Income Attributable to Owners of the Parent

	2020	2021	(Millions of yen) Change (%)
	¥1,732	¥5,740	231.5

Net income attributable to owners of the parent amounted to ¥5,740 million, once again largely reflecting the substantial increase in net sales.

Cash Dividends per Share

	2020	2021	(Yen) Change (yen)
	¥58	¥58	—

The annual cash dividend for the year under review was ¥58 per share, unchanged from the previous year.

Total Assets

	2020	2021	(Millions of yen) Change (%)
	¥71,622	¥82,361	15.0

While the balance of marketable securities declined, total assets as of December 31, 2021 increased compared with the end of the previous year owing to increases in such accounting line items as cash and cash equivalents, trade notes and accounts receivable, and inventories.

Free Cash Flows

	2020	2021	(Millions of yen) Change (%)
	¥5,590	¥10,342	85.0

Free cash flows came in at ¥10,342 million largely reflecting the increase in income before income taxes.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

	2020	2021	(Millions of yen) Change (%)
	¥1,908	¥1,926	0.9

Capital expenditures amounted to ¥1,926 million. This largely reflected maintenance and renewal expenses primarily in the Machine Tools Segment.

Net Sales by Region

	2020	2021	(Millions of yen) Change (%)
Japan	¥ 5,754	¥ 8,072	40.3
USA	13,708	17,315	26.3
China	10,437	14,543	39.3
Others	15,772	24,430	54.9

INCOME ANALYSIS

Record high volume of machine tools sales on the back of robust demand

In 2021, Star Micronics reported consolidated net sales of ¥64,360 million (US\$559,652 thousand), up ¥18,689 million, or 40.9%, compared with the previous year. This increase was attributable to record high sales volume and net sales in the Machine Tools and Special Products segments, respectively. In 2021, economic conditions exhibited an overall recovery trend. Despite the outbreak of new variants amid the impact of COVID-19, and various other factors including shortages in the supply of such components and parts as semiconductors as well as delays in distribution, this overall recovery was due mainly to the uptick in vaccination rates and success of economic policies implemented in each country. In Asia, China's economy generally remained firm. Despite concerns surrounding further spread of the pandemic, economic conditions in both the U.S. and Europe progressed toward a steady recovery. On the domestic front, the economy in Japan continued its positive turnaround notwithstanding certain indications of weakness. Under these circumstances, there was a sharp increase in demand for the Star Micronics Group's mainstay machine tools overseas and in Japan in each of the major markets in which the Group operates. At the same time, demand for POS printers was strong especially in the U.S. market. The cost of sales came to

¥41,756 million (US\$363,095 thousand), an upswing of ¥11,407 million, or 37.6%, compared with the previous year. On this basis, gross profit climbed ¥7,282 million, or 47.5%, year on year, to ¥22,604 million (US\$196,557 thousand).

Selling, general and administrative (SG&A) expenses were ¥15,189 million (US\$132,079 thousand), up ¥2,040 million, or 15.5%.

Taking into account each of the aforementioned factors, operating income surged ¥5,242 million, or 241.3%, year on year, to ¥7,415 million (US\$64,478 thousand).

Substantial growth in net income owing to the significant increase in net sales

In 2021, other income – net came to ¥549 million (US\$4,774 thousand), down from ¥715 million in the previous year.

Based on the aforementioned, income before income taxes amounted to ¥7,964 million (US\$69,252 thousand), an increase of ¥5,076 million, or 175.8%, compared with the previous year. Net income attributable to owners of the parent after deducting income taxes and net income attributable to noncontrolling interests came to ¥5,740 million (US\$49,913 thousand), an upswing of ¥4,008 million, or 231.5%, year on year.

Basic net income per share was ¥150.83 (US\$1.31) and diluted net income per share was ¥142.38 (US\$1.24).

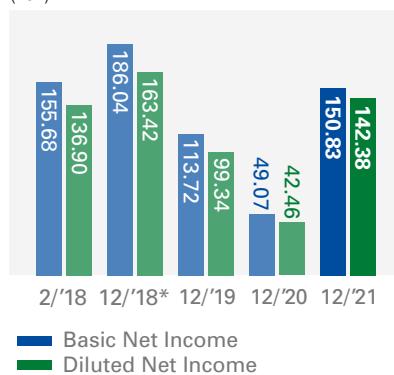
Operating Income and Operating Income Ratio

(Billions of yen, %)



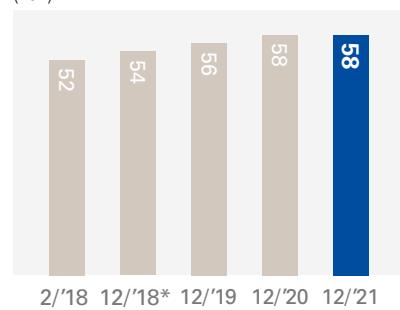
Net Income per Share

(Yen)



Cash Dividends per Share

(Yen)



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

The annual cash dividend was ¥58 per share, unchanged from the previous year

As far as its policy toward the payment of dividends is concerned, Star Micronics aims for a total consolidated payout ratio of at least 50% that includes the repurchase of its own shares while taking into consideration its dividend on equity (DOE) ratio. In 2021, the Company's annual cash dividend was set at ¥58 (US\$0.50) per share, unchanged from the previous year. DOE came in at 3.9%, down 0.2 of a percentage point year on year. In addition, Star Micronics took steps to repurchase its own shares to an amount totaling ¥2,266 million (US\$19,704 thousand). Based on the aforementioned, the Company's total consolidated payout ratio came in at 79.3%.

In this instance, Star Micronics has formulated a new medium-term management plan that covers the three-year period to 2024. From a shareholder return policy perspective, Star Micronics is targeting a total consolidated payout ratio of 50% or more including the repurchase of its own shares based on a stable annual dividend of ¥60 or more per share under this new plan. In light of this policy, plans are in place to pay an interim and year-end dividend of ¥30 per share for an annual cash dividend of ¥60 per share, up ¥2 per share compared with the year under review.

Turning to Star Micronics' internal reserves, the Company allocates funds to a wide range of areas including investment in growth businesses with the aim of ensuring sustainable growth. At the same time, Star Micronics is working to enhance its corporate value and improve shareholder returns.

FINANCIAL POSITION & LIQUIDITY

Increases in total current assets including cash and cash equivalents as well as total assets

Total current assets stood at ¥65,707 million (US\$571,365 thousand) as of December 31, 2021, up ¥10,814 million, or 19.7%, compared with the end of the previous year. While the balance of marketable securities declined ¥1,896 million compared with the previous year-end, the upswing in total current assets largely reflected year-on-year increases of ¥4,170 million, or 18.1%, to ¥27,199 million (US\$236,513 thousand) in cash and cash equivalents, ¥4,254 million, or 29.9%, to ¥18,495 million (US\$160,826 thousand) in trade notes and accounts receivable, and ¥3,699 million, or 26.2%, to ¥17,823 million (US\$154,983 thousand) in inventories.

The balance of net property, plant and equipment edged up ¥37 million, or 0.3%, compared with the end of the previous year, to ¥14,309 million (US\$124,426 thousand).

The balance of investments and other assets declined ¥112 million, or 4.6%, year on year, to ¥2,345 million (US\$20,392 thousand). This downturn was mainly due to a decline of ¥148 million, or 19.8%, compared with the previous year-end in the balance of deferred tax assets, to ¥599 million (US\$5,209 thousand).

Accounting for each of these factors, the balance of total assets as of the end of year under review grew ¥10,739 million, or 15.0%, compared with the end of the previous year, to ¥82,361 million (US\$716,183 thousand).

Convertible bonds redeemed in June 2021

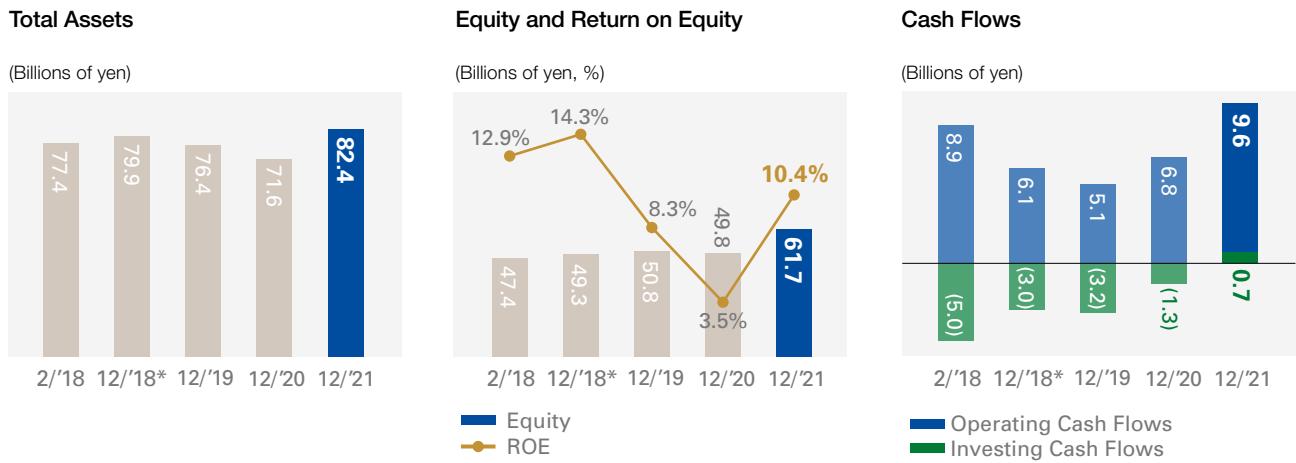
Total current liabilities stood at ¥19,505 million (US\$169,609 thousand) as of December 31, 2021, a decline of ¥1,029 million, or 5.0%, compared with the end of the previous year. While the balance of payables increased ¥7,662 million, or 102.2%, year on year, to ¥15,160 million (US\$131,826 thousand), this decline was mainly due to the absence of convertible bonds totaling ¥8,007 million in the previous year.

Total long-term liabilities came to ¥1,128 million (US\$9,809 thousand) as of December 31, 2021. This was ¥138 million, or 10.9%, lower than the balance as of the end of the previous year and largely reflected the downturn in the balance of liability for retirement benefits of ¥577 million, or 81.6%, compared with the previous year-end, to ¥130 million (US\$1,131 thousand).

Increase in equity owing to the conversion of convertible bonds and further accumulation of retained earnings

Total equity increased ¥11,906 million, or 23.9%, compared with the end of the previous year, to ¥61,728 million (US\$536,765 thousand). Principal movements included an upswing in retained earnings of ¥3,516 million, or 9.2%, year on year, to ¥41,814 million (US\$363,600 thousand), and a drop in treasury stock – at cost, a negative accounting line item, of ¥5,010 million, or 41.5%, attributable to the conversion of convertible bonds, to ¥7,067 million (US\$61,452 thousand).

Owing to the increase in total assets, the equity ratio came in at 74.1%, up 5.9 percentage points compared with the end of the previous year. Equity per share as of December 31, 2021 climbed ¥193.23 year on year, to ¥1,576.64 (US\$13.71).



CASH FLOWS

Repurchase of own shares and continued high level of cash dividends on the back of an increase in free cash flow

Net cash provided by operating activities came to ¥9,601 million (US\$83,487 thousand). The principal cash inflows came from income before income taxes of ¥7,964 million (US\$69,252 thousand), depreciation and amortization of ¥2,127 million (US\$18,496 thousand), and an increase in trade payables of ¥6,009 million (US\$52,252 thousand), which exceeded the major cash outflows of income taxes – paid of ¥1,811 million (US\$15,748 thousand), an increase in trade receivables of ¥2,475 million (US\$21,522 thousand), and an increase in inventories of ¥3,045 million (US\$26,478 thousand).

Net cash provided by investing activities came to ¥741 million (US\$6,443 thousand). While such cash outflows as purchases of property, plant and equipment totaled ¥1,052 million (US\$9,148 thousand), this was more than offset by major cash inflows including a decrease in short-term investments of ¥1,100 million (US\$9,565 thousand) and proceeds from sale of marketable and investment securities of ¥1,410 million (US\$12,261 thousand).

Net cash used in financing activities amounted to ¥7,559 million (US\$65,730 thousand). This largely reflected a decrease in short-term bank loans of ¥2,500 million (US\$21,739 thousand), payments for purchase of treasury stock of ¥2,269 million (US\$19,731 thousand), and dividends paid to shareholders of ¥2,223 million (US\$19,330 thousand).

Taking into account the aforementioned activities as well as foreign currency translation adjustments on cash and cash equivalents of ¥1,387 million (US\$12,061

thousand) and the net increase in cash and cash equivalents of ¥4,170 million (US\$36,261 thousand), cash and cash equivalents stood at ¥27,199 million (US\$236,513 thousand) as of December 31, 2021.

CAPITAL EXPENDITURES AND R&D EXPENSES

Investment mainly on maintenance and renewal work in the Machine Tools Segment in 2021

In 2021, capital expenditures, which totaled ¥1,926 million (US\$16,748 thousand), were largely directed toward maintenance and renewal work in the Machine Tools Segment. In 2022, Star Micronics plans to undertake capital expenditures of ¥3,291 million focusing mainly on a large-scale renewal of the Company's Kikugawa Factory in the Machine Tools Segment and construction of a new building at one of its overseas subsidiaries.

Special Products—Capital expenditures in the Special Products Segment increased ¥71 million compared with the previous year, to ¥182 million (US\$1,582 thousand), in 2021. In 2022, the Company is budgeting expenditures of ¥306 million in this segment mostly for molds used in the manufacture of new products.

Machine Tools—Capital expenditures in the Machine Tools Segment climbed ¥97 million compared with the previous year, to ¥1,667 million (US\$14,496 thousand), in 2021. In 2022, the Company is looking to undertake expenditures of ¥2,887 million. This includes a large-scale renewal of the Company's Kikugawa Factory, the construction of a new building at an overseas subsidiary, and facilities and equipment to help boost production capacity.

New product development in each segment

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

The principal results of research and development undertaken during the past year under review were as follows, with total research and development expenses totaling ¥1,649 million.

New Business Projects—In the second half of the year under review, Star Micronics launched the New Business Project as a means to create new businesses regardless of each business segment. Against the backdrop of a wide range of social issues including the declining workforce attributable to the falling birthrate and aging population as well as such environmental concerns as carbon neutrality, the Company took steps to consider ways in which it could create new business value that contributes to the improvement of customers' business efficiency from the three logistics DX, store DX, and production DX domain perspectives in 2021.

The amount of research and development expenses associated with this business segment is ¥49 million.

Special Products Segment—In the year under review, Star Micronics developed the thermal receipt printer, TSP100IV and StarXpand® SDK for React Native, a software development kit that supports the control of Star printers.

TSP100IV is the Company's latest model in the best-selling TSP100 series. In addition to its distinctive appearance and more stylish polygon design, TSP100IV achieves a downsizing of approximately 20% compared with the current TSP100III model. Over and above its dual USB and LAN interface, TSP100IV allows customers to switch from a wired to a wireless LAN using the Company's Wireless LAN Unit. This new model is also compatible with Android Open Accessory Protocol and addresses a wide range of diversifying needs including wired communication and power supply from Android™ and Windows® terminals at the same time.

StarXpand SDK for React Native is a software development kit that supports the control of Star printers for the cross-platform framework React Native.

In facilitating application development for various operating systems including iOS, Android, and Windows, StarXpand SDK for React Native helps improve development efficiency where a single application is developed for multiple operating systems and in other cases including the transition to another system. Star Micronics has also enabled application developers to more easily integrate its printers into their systems by providing an Application Programming Interface (API) to easily and intuitively program the connection to the Company's printers and facilitate printer control.

Research and development expenses for the Special Products Segment totaled ¥748 million.

Machine Tools Segment—Star Micronics developed the mid-range SL-7 and SL-10 and SR-32JIII models of sliding head-type automatic lathes in the year under review.

SL-7 and SL-10 are new products that address the increasingly complex and diverse small part machining needs of the information and communication, automotive, and medical fields. Utilizing a tool holder for turning and a cross drilling unit for multi-processing in a vertical tool post layout, these new products help enhance multi-processing capability through wider tooling flexibility on a compact machine size. Equipped with a 6-spindle unit with Y2-axis control for backworking as a standard feature, both the SL-7 and SL-10 offer enhanced multi-processing capability in backworking thereby improving productivity through the efficient splitting of processes. Moreover, new functions allow centralized management of data required for machining such as programming, tool unit and geometry offset.

The SR-32JIII is the latest model in the market-acclaimed 32-mm maximum machining diameter SR-32J Series of Swiss-type automatic lathes. With a flip-up door with a wide opening, a swing-type control panel to facilitate operations in the optimum position, and a redesigned tool post for rear-end work, this model incorporates many of the requests fielded from customers. As such, the SR-32JIII has been developed to ensure easier use and improved reliability.

As far as software development is concerned, Star Micronics added new functions to facilitate program input/output to its Star Monitoring & Operator Support System (SMOSS-i), a web-based application which allows users to remotely monitor machine status.

In addition, the Company developed Step Cycle Pro., an update of its step cycle function that employs an oscillating motion on the feed shaft for effective chip breaking. Step Cycle Pro. allows the operator to easily

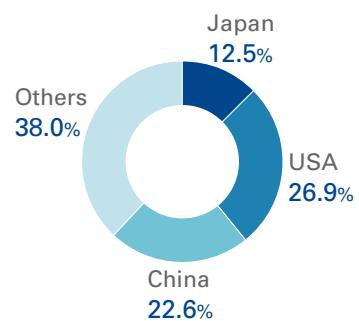
set the optimum oscillation conditions, greatly reducing the time required for machine set up.

Research and development expenses for the Machine Tools Segment amounted to ¥852 million.

SALES FRAMEWORK AND NET SALES BY REGION

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

Net Sales by Region



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

Substantial increase in net sales across all regions

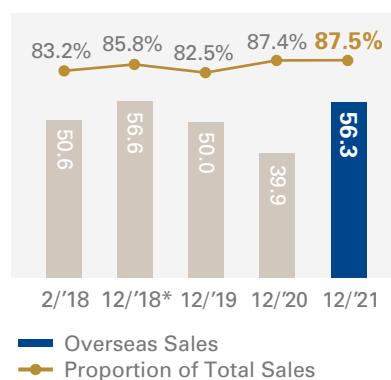
In the year under review, the ratio of overseas sales as a proportion of total sales came to 87.5%, up 0.1 of a percentage point compared with the previous year.

By region, net sales in the U.S. amounted to ¥17,315 million (US\$150,565 thousand), an increase of ¥3,607 million, or 26.3%.

Net sales in China came to ¥14,543 million (US\$126,461 thousand), an increase of ¥4,106 million, or 39.3%.

In Japan, net sales totaled ¥8,072 million (US\$70,191 thousand), an upswing of ¥2,318 million, or 40.3%.

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



Consolidated Balance Sheet

Star Micronics Co., Ltd. and Consolidated Subsidiaries
December 31, 2021

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Current assets:			
Cash and cash equivalents (Note 17)	¥ 27,199	¥ 23,029	\$ 236,513
Marketable securities (Notes 5 and 17)		1,896	
Short-term investments (Notes 6 and 17)	377	338	3,278
Receivables (Notes 7 and 17):			
Trade notes and accounts receivable	18,495	14,241	160,826
Unconsolidated subsidiaries and associated companies	58	55	504
Other	1,044	1,025	9,078
Allowance for doubtful receivables	(137)	(109)	(1,191)
Inventories (Note 8)	17,823	14,124	154,983
Prepaid expenses and other	848	294	7,374
Total current assets	65,707	54,893	571,365
Property, plant and equipment:			
Land	1,893	1,889	16,461
Buildings and structures	15,328	15,087	133,287
Machinery and equipment	20,885	20,073	181,609
Lease assets (Note 16)	153	159	1,330
Construction in progress	175	4	1,522
Other	1,507	893	13,104
Total	39,941	38,105	347,313
Accumulated depreciation	(25,632)	(23,833)	(222,887)
Net property, plant and equipment	14,309	14,272	124,426
Investments and other assets:			
Investment securities (Notes 5 and 17)	717	691	6,235
Investments in unconsolidated subsidiaries and associated companies	332	326	2,887
Deferred tax assets (Note 14)	599	747	5,209
Other assets	697	693	6,061
Total investments and other assets	2,345	2,457	20,392
Total	¥ 82,361	¥ 71,622	\$ 716,183

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Current liabilities:			
Payables (Note 17):			
Trade notes and accounts payable	¥11,967	¥ 5,775	\$104,061
Unconsolidated subsidiaries and associated companies	1	1	9
Other	3,192	1,722	27,756
Short-term bank loans (Notes 9 and 17)		2,500	
Current portion of convertible bonds (Notes 9 and 17)		8,007	
Current portion of long-term debt (Note 9)	261	166	2,270
Income taxes payable (Note 14)	811	370	7,052
Accrued expenses	1,100	695	9,565
Other	2,173	1,298	18,896
Total current liabilities	19,505	20,534	169,609
Long-term liabilities:			
Long-term debt (Note 9)	789	396	6,861
Liability for retirement benefits (Note 10)	130	707	1,131
Deferred tax liabilities (Note 14)	125	75	1,087
Other	84	88	730
Total long-term liabilities	1,128	1,266	9,809
Commitments and contingent liabilities (Note 16)			
Equity (Notes 11, 12 and 23):			
Common stock – authorized, 158,000,000 shares;			
issued, 44,091,334 shares in 2021			
and 45,091,334 shares in 2020	12,722	12,722	110,626
Capital surplus	13,854	13,058	120,469
Stock acquisition rights (Note 12)	421	429	3,661
Retained earnings	41,814	38,298	363,600
Treasury stock – at cost,			
5,367,223 shares in 2021			
and 9,787,046 shares in 2020	(7,067)	(12,077)	(61,452)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	84	27	730
Foreign currency translation adjustments	(830)	(3,352)	(7,217)
Defined retirement benefit plans	477	164	4,148
Total	61,475	49,269	534,565
Noncontrolling interests	253	553	2,200
Total equity	61,728	49,822	536,765
Total	¥82,361	¥ 71,622	\$716,183

See notes to consolidated financial statements.

Consolidated Statement of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2021

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2021	2020	2021
Net sales	¥64,360	¥45,671	\$559,652
Cost of sales (Note 10)	41,756	30,349	363,095
Gross profit	22,604	15,322	196,557
Selling, general and administrative expenses (Notes 10 and 15)	15,189	13,149	132,079
Operating income	7,415	2,173	64,478
Other income (expenses):			
Interest and dividend income	173	178	1,504
Interest expense	(19)	(20)	(165)
Foreign exchange (loss) gain – net	(2)	266	(17)
Gain on sale of property, plant and equipment	20	152	174
Loss on disposal of property, plant and equipment	(16)	(37)	(139)
Gain on liquidation of subsidiaries and associates	165		1,435
Other – net	228	176	1,982
Other income (expenses) – net	549	715	4,774
Income before income taxes	7,964	2,888	69,252
Income taxes (Note 14):			
Current	2,062	1,011	17,930
Deferred	112	120	974
Total income taxes	2,174	1,131	18,904
Net income	5,790	1,757	50,348
Net income attributable to noncontrolling interests	50	25	435
Net income attributable to owners of the parent	¥ 5,740	¥ 1,732	\$ 49,913
	Yen	U.S. dollars (Note 1)	
Per share of common stock (Notes 2.s, 11 and 20):			
Basic net income	¥150.83	¥49.07	\$1.31
Diluted net income	142.38	42.46	1.24
Cash dividends applicable to the year	58.00	58.00	0.50

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2021

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2021	2020	2021
Net income	¥5,790	¥1,757	\$50,348
Other comprehensive income (Note 19):			
Unrealized gain (loss) on available-for-sale securities	57	(89)	495
Foreign currency translation adjustments	2,663	(785)	23,157
Defined retirement benefit plans	313	52	2,722
Share of other comprehensive gain (loss) in associates	12	(2)	104
Total other comprehensive income	3,045	(824)	26,478
Comprehensive income	¥8,835	¥ 933	\$76,826
Total comprehensive income attributable to (Note 19):			
Owners of the parent	¥8,757	¥ 914	\$76,148
Noncontrolling interests	78	19	678

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Star Micronics Co., Ltd. and Consolidated Subsidiaries

Year Ended December 31, 2021

	Thousands	Millions of yen											
		Outstanding number of shares of common stock						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, 2019	35,249		¥12,722	¥13,050	¥421	¥38,541	¥(12,144)	¥116	¥(2,571)	¥112	¥50,247	¥ 543	¥50,790
Net income attributable to owners of the parent							1,732				1,732		1,732
Cash dividends, ¥58.0 per share							(1,975)				(1,975)		(1,975)
Purchase of treasury stock	(0)						(0)				(0)		(0)
Disposal of treasury stock	55			8			67				75		75
Net change in the year					8		(89)	(781)	52	(810)	10	(800)	
Balance, December 31, 2020	35,304		¥12,722	¥13,058	¥429	¥38,298	¥(12,077)	¥ 27	¥(3,352)	¥164	¥49,269	¥ 553	¥49,822
Net income attributable to owners of the parent							5,740				5,740		5,740
Cash dividends, ¥58.0 per share							(2,224)				(2,224)		(2,224)
Purchase of treasury stock	(1,431)						(2,266)				(2,266)		(2,266)
Disposal of treasury stock	46			16			56				72		72
Conversion of convertible bonds	4,805			2,071			5,929				8,000		8,000
Retirement of treasury stock				(1,291)			1,291						
Net change in the year				(8)			57	2,522	313	2,884	(300)	2,584	
Balance, December 31, 2021	38,724		¥12,722	¥13,854	¥421	¥41,814	¥ (7,067)	¥ 84	¥ (830)	¥477	¥61,475	¥ 253	¥61,728

	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					Non- controlling interests	Total equity
							Total	Non- controlling interests	Total equity				
Balance, December 31, 2020	\$110,626	\$113,548	\$3,730	\$333,026	\$(105,018)	\$235	\$(29,147)	\$1,426	\$428,426	\$ 4,809	\$433,235		
Net income attributable to owners of the parent					49,913					49,913		49,913	
Cash dividends, \$0.50 per share					(19,339)					(19,339)		(19,339)	
Purchase of treasury stock					(19,704)					(19,704)		(19,704)	
Disposal of treasury stock		139			487					626		626	
Conversion of convertible bonds		18,009			51,556					69,565		69,565	
Retirement of treasury stock		(11,227)			11,227								
Net change in the year				(69)			495	21,930	2,722	25,078	(2,609)	22,469	
Balance, December 31, 2021	\$110,626	\$120,469	\$3,661	\$363,600	\$ (61,452)	\$730	\$ (7,217)	\$4,148	\$534,565	\$ 2,200	\$536,765		

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2021

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2021	2020	2021
Operating activities:			
Income before income taxes	¥ 7,964	¥ 2,888	\$ 69,252
Adjustments for:			
Income taxes – paid	(1,811)	(1,639)	(15,748)
Depreciation and amortization	2,127	2,255	18,496
Gain on liquidation of subsidiaries and associates	(165)		(1,435)
Provision for (reversal of allowance for) doubtful receivables	18	(3)	157
Gain on sale and disposal of property, plant and equipment	(4)	(115)	(35)
Increase in trade receivables	(2,475)	(218)	(21,522)
(Increase) decrease in inventories	(3,045)	5,832	(26,478)
Increase (decrease) in trade payables	6,009	(1,463)	52,252
Decrease in liability for retirement benefits	(130)	(141)	(1,130)
Other – net	1,113	(553)	9,678
Total adjustments	1,637	3,955	14,235
Net cash provided by operating activities	9,601	6,843	83,487
Investing activities:			
Purchases of property, plant and equipment	(1,052)	(1,955)	(9,148)
Proceeds from sale of property, plant and equipment	24	1,092	209
Decrease (increase) in short-term investments	1,100	(600)	9,565
Purchases of marketable and investment securities	(600)	(200)	(5,218)
Proceeds from sale of marketable and investment securities	1,410	600	12,261
Other – net	(141)	(190)	(1,226)
Net cash provided by (used in) investing activities	741	(1,253)	6,443
Financing activities:			
Decrease in short-term bank loans	(2,500)		(21,739)
Dividends paid to shareholders	(2,223)	(1,977)	(19,330)
Dividends paid to noncontrolling shareholders of consolidated subsidiaries	(232)	(9)	(2,017)
Repayments to noncontrolling shareholders	(147)		(1,278)
Payments for purchase of treasury stock	(2,269)	(0)	(19,731)
Disposal of treasury stock	14	20	122
Other – net	(202)	(170)	(1,757)
Net cash used in financing activities	(7,559)	(2,136)	(65,730)
Foreign currency translation adjustments on cash and cash equivalents	1,387	(232)	12,061
Net increase in cash and cash equivalents	4,170	3,222	36,261
Cash and cash equivalents at beginning of year	23,029	19,807	200,252
Cash and cash equivalents at end of year	¥27,199	¥23,029	\$236,513
Noncash investing and financing activities:			
Increase in capital surplus due to conversion of convertible bonds	¥ 2,071		\$ 18,009
Decrease in treasury stock due to conversion of convertible bonds	5,929		51,556
Decrease in convertible bonds due to conversion of convertible bonds	¥ 8,000		\$ 69,565

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended December 31, 2021

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, 2020 to conform to the classifications used in the year ended December 31, 2021.

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 ¥115 to \$1, the approximate rate of exchange at December 31, 2021.

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, 2021, include the accounts of the Company and its 17 (18 in 2020) 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 2020) associated company is accounted for by the equity method. Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

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

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

c. Business Combinations

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

d. Cash Equivalents

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

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

e. Inventories

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

f. Marketable and Investment Securities

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

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

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

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

g. Property, Plant and Equipment

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

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

h. Long-lived Assets

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

i. Retirement and Pension Plans

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

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

Domestic consolidated subsidiaries have lump-sum retirement benefit plans, and certain 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.

Subsidiaries except for Japan and US have applied the standards of "Lease" (IFRS No. 16).

n. Research and Development Costs

Research and development costs are charged to income as incurred.

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

p. Foreign Currency Transactions

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

q. Foreign Currency Financial Statements

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

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

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

r. Derivatives

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

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

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

s. Per Share Information

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

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

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

t. Accounting Changes and Error Corrections

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

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

u. Changes in Presentation

Adoption of "Accounting Standard for Disclosure of Accounting Estimates"

On March 31, 2020, the ASBJ issued ASBJ Statement No. 31, "Accounting Standard for Disclosure of Accounting Estimates." The Company adopted the accounting standard to the consolidated financial statements for the current consolidated fiscal year, and therefore significant accounting estimates are disclosed in the note to the consolidated financial statements. The note does not include information for the prior consolidated fiscal year in accordance with the transitional provision set out in paragraph 11 of the Accounting Standard.

Consolidated statement of income

For the year ended December 31, 2021, Share of loss of entities accounted for using equity method individually presented in the Statement of income in the previous year, was included in "Other" under Other income (expense) as it was immaterial. The amount of Share of loss of entities accounted for using equity method in the previous year was ¥40 million.

v. New Accounting Pronouncements

Revenue Recognition

On March 31, 2020, the ASBJ issued ASBJ Statement No. 29, "Revised Accounting Standard for Revenue Recognition," and revised ASBJ Guidance No. 30, "Revised Implementation Guidance on Accounting Standard for Revenue Recognition" on March 26, 2021. The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021.

Earlier application is permitted for annual periods beginning on or after April 1, 2018.

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

Marketable and Investment Securities

On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and revised ASBJ Guidance No. 31, "Revised Implementation Guidance on Accounting Standard for Fair Value Measurement" on June 17, 2021, and related ASBJ Statements and ASBJ Guidance. Under this standard, nonmarketable available-for-sale equity securities are stated at cost, while under the current accounting standard, nonmarketable available-for-sale securities are stated at cost.

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

3 Significant Accounting Estimate

a. Deferred Tax Accounting

(1) Carrying amounts

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2021	2021
Deferred tax assets	¥599	\$5,209

(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)
	2021	2021
Long-lived assets	¥14,309	\$124,426

(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 2021.

There is a 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 Additional Information

Estimation Uncertainty Associated with Accounting Estimates

Demand in the Group's primary market has experienced a recovery trend although uncertainties remained due to the COVID-19 pandemic.

The Group made accounting estimates in its assessment of impairment of long-lived assets and recoverability of deferred tax assets based on the assumption that the situation surrounding the Group will be continuously on a recovery trend after the following fiscal year.

There are uncertainties regarding the extent of the impact from COVID-19 and when it will subside. Therefore, there is a possibility that the Group will incur losses in the future if the effect of COVID-19 is prolonged.

5 Marketable and Investment Securities

Marketable and investment securities at December 31, 2021 and 2020, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Current:			
Corporate and other bonds		¥ 796	
Trust fund investments and other		1,100	
Total		¥1,896	
Non-current:			
Equity securities	¥218	¥ 174	\$1,896
Corporate and other bonds	377	303	3,278
Trust fund investments and other	122	214	1,061
Total	¥717	¥ 691	\$6,235

The costs and aggregate fair values of securities classified as available-for-sale at December 31, 2021 and 2020, were as follows:

2021	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	¥104	¥45		¥149
Corporate and other bonds	400		¥23	377
Trust fund investments and other	29	38		67
2020	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	¥ 118	¥ 7	¥16	¥ 109
Corporate and other bonds	1,100	3	5	1,098
Trust fund investments and other	1,129	39		1,168

	Thousands of U.S. dollars (Note 1)			
2021	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	\$ 905	\$391		\$1,296
Corporate and other bonds	3,478		\$200	3,278
Trust fund investments and other	252	331		583

Proceeds from sales of available-for-sale securities for the years ended December 31, 2021 and 2020, were ¥3,009 million (\$26,165 thousand) and ¥9,200 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended December 31, 2021, were ¥14 million (\$122 thousand) and ¥4 million (\$35 thousand), and for the year ended December 31, 2020, were ¥14 million and nil, respectively.

6 Short-term Investments

Short-term investments at December 31, 2021 and 2020, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Deposits over three-month period	¥377	¥338	\$3,278
Total	¥377	¥338	\$3,278

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 ¥999 million (\$8,686 thousand) and ¥876 million at December 31, 2021 and 2020, respectively.

8 Inventories

Inventories at December 31, 2021 and 2020, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Merchandise	¥ 754	¥ 666	\$ 6,557
Finished products	8,804	7,594	76,556
Work in process	4,620	3,423	40,174
Raw materials and supplies	3,645	2,441	31,696
Total	¥17,823	¥14,124	\$154,983

9 Short-term Bank Loans and Long-term Debt

Short-term bank loans at December 31 2020, consisted of bank overdrafts. The annual interest rate applicable for the year ended December 31, 2020 was 0.11%.

Long-term debt at December 31, 2021 and 2020, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Zero-coupon convertible bonds due 2021		¥8,007	
Lease obligations	¥ 82	76	\$ 713
Others	968	486	8,418
Total	1,050	8,569	9,131
Less: current portion	261	8,173	2,270
Long-term debt, less current portion	¥ 789	¥ 396	\$6,861

Annual maturities of long-term debt at December 31, 2021, were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2022	¥ 261	\$2,270
2023	245	2,131
2024	206	1,791
2025	148	1,287
2026	117	1,017
2027 and thereafter	73	635
Total	¥1,050	\$9,131

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, 2021 and 2020, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	
Balance at beginning of year	¥9,245	¥9,394	\$80,391
Current service cost	169	186	1,470
Interest cost	98	100	852
Actuarial gains and losses	(89)	15	(774)
Benefits paid	(422)	(449)	(3,669)
Others	(0)	(1)	(0)
Balance at end of year	¥9,001	¥9,245	\$78,270

(2) The changes in plan assets for the years ended December 31, 2021 and 2020, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	
Balance at beginning of year	¥8,538	¥8,471	\$74,243
Expected return on plan assets	214	212	1,861
Actuarial gains and losses	350	99	3,044
Contributions from the employer	191	203	1,661
Benefits paid	(422)	(447)	(3,670)
Balance at end of year	¥8,871	¥8,538	\$77,139

(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, 2021 and 2020, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	
Funded defined benefit obligation	¥ 8,911	¥ 9,155	\$ 77,487
Plan assets	(8,871)	(8,538)	(77,139)
Total	40	617	348
Unfunded defined benefit obligation	90	90	783
Net liability arising from defined benefit obligation	¥ 130	¥ 707	\$ 1,131

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2021	2020	2021
Liability for retirement benefits	¥130	¥707	\$1,131
Net liability arising from defined benefit obligation	¥130	¥707	\$1,131

(4) The components of net periodic benefit costs for the years ended December 31, 2021 and 2020, were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2021	2020	2021
Service cost	¥ 169	¥ 186	\$ 1,470
Interest cost	98	100	852
Expected return on plan assets	(214)	(212)	(1,861)
Recognized net actuarial gains and losses	7	(11)	61
Net periodic benefit costs	¥ 60	¥ 63	\$ 522

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended December 31, 2021 and 2020, were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2021	2020	2021
Actuarial gains and losses	¥446	¥74	\$3,878
Total	¥446	¥74	\$3,878

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of December 31, 2021 and 2020, were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2021	2020	2021
Unrecognized actuarial gains and losses	¥(680)	¥(234)	\$(5,913)
Total	¥(680)	¥(234)	\$(5,913)

(7) Plan assets

a. Components of plan assets

Plan assets as of December 31, 2021 and 2020, consisted of the following:

	2021	2020
Debt investments	24%	24%
Equity investments	26	24
General account	31	33
Others	19	19
Total	100%	100%

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

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

(8) Assumptions used for the years ended December 31, 2021 and 2020, are set forth as follows:

	2021	2020
Discount rate	1.1%	1.1%
Expected rate of return on plan assets	2.5%	2.5%
Expected rate of salary increase	4.1%	4.1%

(9) Defined contribution pension plan

The amounts of the required contribution to the defined contribution plans of the consolidated subsidiaries were ¥177 million (\$1,539 thousand) and ¥150 million for the years ended December 31, 2021 and 2020, 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, 2021, 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
2015 II Stock Option	5 directors 3 executive officers 16 employees 9 directors of subsidiaries	154,000 shares	June 15, 2015	¥2,203	From June 30, 2017 to June 29, 2021
2016 I Stock Option	3 directors 3 executive officers	36,200 shares	June 13, 2016	¥ 1	From June 13, 2016 to June 12, 2046
2016 II Stock Option	3 directors 6 executive officers 18 employees 9 directors of subsidiaries	168,000 shares	June 13, 2016	¥1,289	From June 29, 2018 to June 28, 2022
2017 I Stock Option	3 directors 4 executive officers	24,700 shares	June 12, 2017	¥ 1	From June 12, 2017 to June 11, 2047
2017 II Stock Option	3 directors 6 executive officers 19 employees 8 directors of subsidiaries	148,000 shares	June 12, 2017	¥1,830	From July 1, 2019 to June 30, 2023
2018 I Stock Option	3 directors 4 executive officers	24,400 shares	June 11, 2018	¥ 1	From June 11, 2018 to June 10, 2048
2018 II Stock Option	1 director 6 executive officers 18 employees 8 directors of subsidiaries	175,000 shares	June 11, 2018	¥2,017	From July 1, 2020 to June 30, 2025
2019 I Stock Option	3 directors 4 executive officers	42,700 shares	April 15, 2019	¥ 1	From April 15, 2019 to April 14, 2049
2019 II Stock Option	7 executive officers 16 employees 8 directors of subsidiaries	161,000 shares	April 15, 2019	¥1,805	From June 1, 2021 to May 31, 2026
2020 I Stock Option	3 directors 5 executive officers	59,900 shares	April 13, 2020	¥ 1	From April 13, 2020 to April 12, 2050
2020 II Stock Option	5 executive officers 15 employees 8 directors of subsidiaries	138,000 shares	April 13, 2020	¥1,149	From June 1, 2022 to May 31, 2027
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

The stock option activity was as follows:

	2014 I Stock Option	2015 I Stock Option	2015 II Stock Option	Shares 2016 I Stock Option	2016 II Stock Option	2017 I Stock Option	2017 II Stock Option
Year ended December 31, 2020							
Non-vested							
December 31, 2019 – Outstanding							
Granted							
Canceled							
Vested							
December 31, 2020 – Outstanding							
Vested							
December 31, 2019 – Outstanding	18,900	12,900	137,000	36,200	122,700	24,700	138,000
Vested							
Exercised	(3,400)	(2,500)		(14,100)	(16,000)	(5,400)	
Canceled			(4,000)		(2,000)		(2,000)
December 31, 2020 – Outstanding	15,500	10,400	133,000	22,100	104,700	19,300	136,000
Year ended December 31, 2021							
Non-vested							
December 31, 2020 – Outstanding							
Granted							
Canceled							
Vested							
December 31, 2021 – Outstanding							
Vested							
December 31, 2020 – Outstanding	15,500	10,400	133,000	22,100	104,700	19,300	136,000
Vested							
Exercised					(11,000)		
Canceled			(133,000)				
December 31, 2021 – Outstanding	15,500	10,400	22,100	93,700	19,300	136,000	
Exercise price	¥ 1 \$ 0	¥ 1 \$ 0	¥2,203 \$ 19	¥ 1 \$ 0	¥1,289 \$ 11	¥ 1 \$ 0	¥1,830 \$ 16
Average stock price at exercise					¥1,822 \$ 16		
Fair value price at grant date	¥1,209 \$ 11	¥1,995 \$ 17	¥ 407 \$ 4	¥ 988 \$ 9	¥ 165 \$ 1	¥1,384 \$ 12	¥ 246 \$ 2

	2018 I Stock Option	2018 II Stock Option	2019 I Stock Option	Shares 2019 II Stock Option	2020 I Stock Option	2020 II Stock Option	2021 Stock Option
Year ended							
December 31, 2020							
Non-vested							
December 31, 2019 –							
Outstanding		169,000		161,000			
Granted					59,900	138,000	
Canceled		(3,000)					
Vested		(166,000)				(59,900)	
December 31, 2020 –					161,000		
Outstanding						138,000	
Vested							
December 31, 2019 –							
Outstanding	24,400		42,700				
Vested		166,000				59,900	
Exercised	(5,000)		(8,700)				
Canceled							
December 31, 2020 –							
Outstanding	19,400	166,000	34,000			59,900	
Year ended							
December 31, 2021							
Non-vested							
December 31, 2020 –							
Outstanding			161,000		138,000		
Granted							141,000
Canceled							
Vested			(161,000)				
December 31, 2021 –						138,000	141,000
Outstanding							
Vested							
December 31, 2020 –							
Outstanding	19,400	166,000	34,000			59,900	
Vested				161,000			
Exercised							
Canceled							
December 31, 2021 –							
Outstanding	19,400	166,000	34,000	161,000	59,900		
Exercise price	¥ 1 \$ 0	¥2,017 \$ 18	¥ 1 \$ 0	¥1,805 \$ 16	¥ 1 \$ 0	¥1,149 \$ 10	¥1,720 \$ 15
Average stock price at exercise							
Fair value price at grant date	¥1,644 \$ 14	¥ 308 \$ 3	¥1,608 \$ 14	¥ 352 \$ 3	¥ 866 \$ 8	¥ 157 \$ 1	¥ 296 \$ 3

The assumptions used to measure fair value of the 2021 Stock Options were as follows:

Estimate method: Black-Scholes option pricing model

Volatility of stock price: 32.583%

Estimated remaining outstanding period: 4.6 years

Estimated dividend: ¥58.00 per share

Risk free interest rate: (0.106)%

13 Restricted Stock Compensation

The restricted stock compensation outstanding as of December 31, 2021, 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

- 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
Year ended December 31, 2021	
December 31, 2020 – Outstanding	34,500
Granted	34,500
Forfeited	(1,622)
Released	14
December 31, 2021 – Outstanding	34,500
Fair value price at grant date	\$ 14

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, 2021 and 2020.

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, 2021 and 2020, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Deferred tax assets			
Unrealized profit on inventories	¥ 376	¥ 10	\$ 3,270
Tax loss carryforwards	360	766	3,130
Depreciation	339	314	2,948
Accrued bonuses	275	183	2,391
Inventories	166	205	1,444
Liability for retirement benefits	33	206	287
Impairment loss	26	43	226
Other – net	515	317	4,478
Less valuation allowance	(290)	(293)	(2,522)
Total	1,800	1,751	15,652
Deferred tax liabilities			
Undistributed earnings of associated companies	(1,136)	(899)	(9,878)
Other – net	(190)	(180)	(1,652)
Total	(1,326)	(1,079)	(11,530)
Net deferred tax assets (liabilities)	¥ 474	¥ 672	\$ 4,122

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of December 31, 2021 and 2020, were as follows:

	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	Millions of yen	
							Total	
2021								
Deferred tax assets relating to tax loss carryforwards					¥8	¥352	¥360	
Less valuation allowances for tax loss carryforwards								
Net deferred tax assets relating to tax loss carryforwards					¥8	¥352	¥360	
2020								
Deferred tax assets relating to tax loss carryforwards							¥766	¥766
Less valuation allowances for tax loss carryforwards								
Net deferred tax assets relating to tax loss carryforwards					¥766	¥766	¥766	
2021								
Deferred tax assets relating to tax loss carryforwards							\$69	\$3,061
Less valuation allowances for tax loss carryforwards								
Net deferred tax assets relating to tax loss carryforwards							\$69	\$3,061

- 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 years ended December 31, 2021 and 2020, were ¥360 million (\$3,130 thousand) and ¥766 million, respectively. 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, 2021 and 2020, and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	2021	2020
Normal effective statutory tax rate	29.9%	29.9%
Undistributed earnings of associated companies	5.9	7.1
Effect of foreign tax rate differences	(4.6)	(6.6)
Unrealized profit on inventories	(2.0)	10.2
Research and development tax credits	(0.9)	
Valuation allowance	0.0	(1.2)
Other – net	(1.0)	(0.2)
Actual effective tax rate	27.3%	39.2%

15 Research and Development Costs

Research and development costs charged to income were ¥1,650 million (\$14,348 thousand) and ¥1,470 million for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	
Due within one year	¥ 50	¥34	\$ 435
Due after one year	299	39	2,600
Total	¥349	¥73	\$3,035

17 Financial Instruments and Related Disclosures

(1) Group Policy for Financial Instruments

The Group invests cash surpluses in low-risk financial instruments and raises funds by bank loans and convertible bonds. Derivatives are used mainly to manage foreign exchange risks, not for speculative purposes.

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

Trade receivables, such as trade notes and accounts receivable, are exposed to customer credit risk. The Group manages its credit risk from receivables on the basis of 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.

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

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

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

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

(3) Fair Values of Financial Instruments

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

(a) Fair Value of Financial Instruments

December 31, 2021	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Carrying amount	Fair value	Unrealized gain/loss	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥27,199	¥27,199		\$236,513	\$236,513	
Marketable and investment securities	593	593		5,157	5,157	
Short-term investments	377	377		3,278	3,278	
Trade receivables	18,553	18,553		161,330	161,330	
Total	¥46,722	¥46,722		\$406,278	\$406,278	
Trade payables	¥11,968	¥11,968		\$104,070	\$104,070	
Total	¥11,968	¥11,968		\$104,070	\$104,070	
Derivatives	¥ (55)	¥ (55)		\$ (478)	\$ (478)	

	Millions of yen		
December 31, 2020	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥23,029	¥23,029	
Marketable and investment securities	2,375	2,375	
Short-term investments	338	338	
Trade receivables	14,296	14,296	
Total	<u>¥40,038</u>	<u>¥40,038</u>	
Trade payables	¥ 5,776	¥ 5,776	
Short-term bank loans	2,500	2,500	
Convertible bonds	8,007	8,376	¥369
Total	<u>¥16,283</u>	<u>¥16,652</u>	<u>¥369</u>
Derivatives	¥ (1)	¥ (1)	

Cash and cash equivalents and short-term investments

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

Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market prices of the stock exchange for equity instruments, and at the quoted prices obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 5.

Trade receivables

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

Trade payables and short-term bank loans

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

Convertible bonds

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

Derivatives

Information on the fair value of derivatives is included in Note 18.

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

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	
Investments in equity instruments that do not have a quoted market price in an active market	¥ 69	¥ 65	\$ 600
Investments in unconsolidated subsidiaries and associated companies	229	223	1,992
Investments in limited partnerships	55	146	478
Total	<u>¥353</u>	<u>¥434</u>	<u>\$3,070</u>

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

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
December 31, 2021				
Cash and cash equivalents	¥27,199			
Marketable and investment securities		¥ 455		
Short-term investments	377			
Trade receivables	17,554	999		
Total	¥45,130	¥1,454		
December 31, 2020				
Cash and cash equivalents	¥23,029			
Marketable and investment securities	1,900	¥ 358	¥88	
Short-term investments	338			
Trade receivables	13,420	876		
Total	¥38,687	¥1,234	¥88	
	Thousands of U.S. dollars (Note 1)			
December 31, 2021				
Cash and cash equivalents	\$236,513			
Marketable and investment securities		\$ 3,957		
Short-term investments	3,278			
Trade receivables	152,644	8,686		
Total	\$392,435	\$12,643		

18 Derivatives

Derivative transactions to which hedge accounting is not applied

	Millions of yen			
	Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
At December 31, 2021				
Foreign currency forward contracts:				
Selling	¥4,677		¥(51)	¥(51)
Buying	178		(4)	(4)
Total	¥4,855		¥(55)	¥(55)
At December 31, 2020				
Foreign currency forward contracts:				
Selling	¥3,438		¥(1)	¥(1)
Buying	111		0	0
Total	¥3,549		¥(1)	¥(1)
	Thousands of U.S. dollars (Note 1)			
At December 31, 2021				
Foreign currency forward contracts:				
Selling	\$40,669		\$(443)	\$(443)
Buying	1,548		(35)	(35)
Total	\$42,217		\$(478)	\$(478)

19 Other Comprehensive Income

The components of other comprehensive income (loss) for the years ended December 31, 2021 and 2020, were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2021	2020	2021
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 64	¥ (88)	\$ 557
Reclassification adjustments to profit or loss	(8)	(88)	(70)
Amount before income tax effect	56	(88)	487
Income tax effect	1	(1)	8
Total	¥ 57	¥ (89)	\$ 495
Foreign currency translation adjustments:			
Adjustments arising during the year	¥2,842	¥(785)	\$24,713
Reclassification adjustments to profit or loss	(179)	(1,556)	
Total	¥2,663	¥(785)	\$23,157
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 439	¥ 85	\$ 3,817
Reclassification adjustments to profit or loss	7	(11)	61
Amount before income tax effect	446	74	3,878
Income tax effect	(133)	(22)	(1,156)
Total	¥ 313	¥ 52	\$ 2,722
Share of other comprehensive income in an associate:			
Gains (losses) arising during the year	¥ 12	¥ (2)	\$ 104
Total	¥ 12	¥ (2)	\$ 104
Total other comprehensive income (loss)	¥3,045	¥(824)	\$26,478

20 Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended December 31, 2021 and 2020, was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income attributable to owners of the parent	Weighted-average shares		
Year ended December 31, 2021				
Basic EPS				
Net income attributable to common shareholders	¥5,740	38,056	¥150.83	\$1.31
Effect of dilutive securities				
Convertible bonds	(7)	1,975		
Stock acquisition rights		237		
Diluted EPS				
Net income for computation	¥5,733	40,268	¥142.38	\$1.24
Year ended December 31, 2020				
Basic EPS				
Net income attributable to common shareholders	¥1,732	35,287	¥ 49.07	
Effect of dilutive securities				
Convertible bonds	(24)	4,771		
Stock acquisition rights		174		
Diluted EPS				
Net income for computation	¥1,708	40,232	¥ 42.46	

21 Segment Information

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

1. Description of reportable segments

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

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

December 31, 2020	Reportable Segment					Consolidated
	Special Products	Machine Tools	Total	Reconciliations		
	¥11,721	¥33,950	¥45,671	¥45,671		
Sales to external customers	¥11,721	¥33,950	¥45,671		¥45,671	
Intersegment sales or transfers						
Total	11,721	33,950	45,671		45,671	
Segment profit	¥ 1,546	¥ 2,697	¥ 4,243	¥ (2,070)	¥ 2,173	
Segment assets	¥ 9,981	¥46,751	¥56,732	¥14,890	¥71,622	
Other items:						
Depreciation	353	1,619	1,972	283	2,255	
Investments in associates	223		223		223	
Increase in property, plant and equipment and intangible assets	111	1,570	1,681	227	1,908	

December 31, 2021	Thousands of U.S. dollars (Note 1)				
	Reportable Segment				
	Special Products	Machine Tools	Total	Reconciliations	Consolidated
Sales to external customers	\$135,391	\$424,261	\$559,652		\$559,652
Intersegment sales or transfers					
Total	135,391	424,261	559,652		559,652
Segment profit	\$ 19,852	\$ 59,635	\$ 79,487	\$ (15,009)	\$ 64,478
Segment assets	\$109,018	\$485,139	\$594,157	\$122,026	\$716,183
Other items:					
Depreciation	2,939	13,478	16,417	2,079	18,496
Investments in associates	1,991		1,991		1,991
Increase in property, plant and equipment and intangible assets	1,582	14,496	16,078	670	16,748

Notes: 1. Reconciliations recorded for segment profit include corporate expenses that are not allocated to any reportable segment. Corporate expenses principally consist of general corporate expenses incurred by the Administration Headquarters of the Company.

2. Reconciliations recorded for segment assets include corporate assets that are not allocated to any reportable segment. Corporate assets principally consist of assets maintained by the Administration Headquarters of the Company and consist principally of excess funds under management (cash and cash equivalents).

3. Reconciliations recorded for depreciation include depreciation incurred by corporate assets that are not allocated to any reportable segment.

4. Reconciliations recorded for increase in property, plant and equipment and intangible assets are capital investments principally for corporate assets that are not allocated to any reportable segment.

5. Segment profit agrees with operating profit in the accompanying consolidated statement of income.

6. Effective the fiscal year ended December 31, 2021, the Group has changed the classification of its reportable segments from three reportable segments: "Special Products," "Machine Tools" and "Precision Products" to two reportable segments: "Special Products" and "Machine Tools" as the Company reconsidered operating segments due to a decision to discontinue the Precision Products Division of the Company in the previous fiscal year.

For comparative purposes, figures of "Precision Products" segment for the corresponding period of the previous fiscal year have been included in "Machine Tools" segment.

Related Information

Related information by geographical area at December 31, 2021 and 2020, consisted of the following:

(1) Net Sales

December 31, 2021	Millions of yen				
	Japan	USA	China	Others	Total
	¥8,072	¥17,315	¥14,543	¥24,430	¥64,360

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

December 31, 2021	Thousands of U.S. dollars (Note 1)				
	Japan	USA	China	Others	Total
	\$70,191	\$150,565	\$126,461	\$212,435	\$559,652

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

(2) Property, Plant and Equipment

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

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

December 31, 2021	Thousands of U.S. dollars (Note 1)				
	Japan	China	Thailand	Others	Total
	\$73,556	\$22,670	\$16,635	\$11,565	\$124,426

22 Related Party Disclosures

Transactions of the Company with related parties for the years ended December 31, 2021 and 2020, were as follows:

Year ended December 31, 2021

Not applicable

Year ended December 31, 2020

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

23 Subsequent Event

The following appropriation of retained earnings at December 31, 2021, was approved at the Company's Board of Directors' meeting held on February 22, 2022:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥29 (\$0.252) per share	¥1,123	\$9,765

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
AOI TOWER
17-1 Koya-machi, Aoi-ku
Shizuoka-shi, Shizuoka 420-0852
Japan
Tel: +81 (54) 273 8091
Fax: +81 (54) 273 8166
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Star Micronics Co., Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of December 31, 2021, 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, 2021, 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.

Member of
Deloitte Touche Tohmatsu Limited

Appropriateness of deferred tax assets evaluations	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As stated in Note 3 "Summary of Significant Accounting Estimate" and Note 14 "Income Taxes" to the consolidated financial statements, the Group recorded deferred tax assets totaling 599 million yen as of December 31, 2021, of which 360 million yen were related to losses carried forward. The losses carried forward reported for tax purposes of Star Micronics Co., Ltd. was mainly attributable to decrease in sales caused by the COVID-19 pandemic in the previous year.</p> <p>The Group has determined that such losses carried forward for tax purposes have the effect of offsetting estimated future taxable income and reducing future tax burdens and has recorded the full amount as deferred tax assets.</p> <p>Estimated future taxable income is formulated based on future business plans. The products of the Group are sold domestically and overseas, directly or through domestic/foreign subsidiaries, and the demand for these products is highly sensitive to the economic trends and economic conditions of the customer's country or region. Furthermore, the Machine Tools business, the core business of the Group, is especially affected by the customers' demand for equipment investment. Demand forecasts and sales trends involve assumptions that are subject to management judgment and high degree of uncertainties, and such assumptions have a significant impact on future business plans.</p> <p>The Group makes certain assumptions based on available information, such as demand forecasts and sales trends, and evaluates the recoverability of deferred tax assets based on estimated future taxable income considering the achievability of prior business plans as well as past trends in demand. Given the significant uncertainty involved in such assumptions, we identified the appropriateness of deferred tax asset evaluations as a key audit matter.</p>	<p>Our audit procedures related to the appropriateness of deferred tax assets evaluations included the following, among others:</p> <p>(1) Evaluation of internal controls Read accounting policies pertaining to deferred tax asset recoverability evaluations, obtained an understanding of the formulation and approval process of business plans, and tested the design and operating effectiveness of relevant internal controls. Such controls include internal controls over the estimation of future taxable income based on future demand forecasts and sales trends.</p> <p>(2) Substantive procedures <ul style="list-style-type: none"> · Tested the appropriateness of the classification of companies in accordance with the "Implementation Guidance on Recoverability of Deferred Tax Assets". · Evaluated the reasonableness of the schedule for the reversal of the balance of temporary differences, etc. </p> <p>Furthermore, performed the following procedures to evaluate whether business plans, which are key inputs for estimated future taxable income, were prepared in a reasonable manner.</p> <p> <ul style="list-style-type: none"> · Evaluated the reasonableness of the significant assumptions made by management pertaining to future business plans by inquiring of management and inspecting the minutes of Board of Director meetings · Tested the accuracy of estimates based on how successful business plans were in the previous years as well as evaluations of uncertainty made by management that reflect a certain level of risk. · Evaluated the reasonableness of demand forecasts and sales trends, which are key inputs for business plans, by comparing them with world economic outlook reports published by external organizations as well as figures published by the Japan Machine Tool Builders' Association, among others. </p>

	<ul style="list-style-type: none"> Evaluated the reasonableness of sales forecasts and cost forecasts considering the state of order backlogs, inventories and expected timing for shipping, etc., which are key inputs for business plans, by inquiring of persons in charge of relevant divisions and inspecting relevant documents.
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Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

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

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

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

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

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

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

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

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

March 24, 2022

STOCK INFORMATION

as of December 31, 2021

Common Stock	Authorized Issued	158,000,000 44,091,334*1
Paid-in Capital		12,721,939,515 yen
Number of Shareholders		10,727

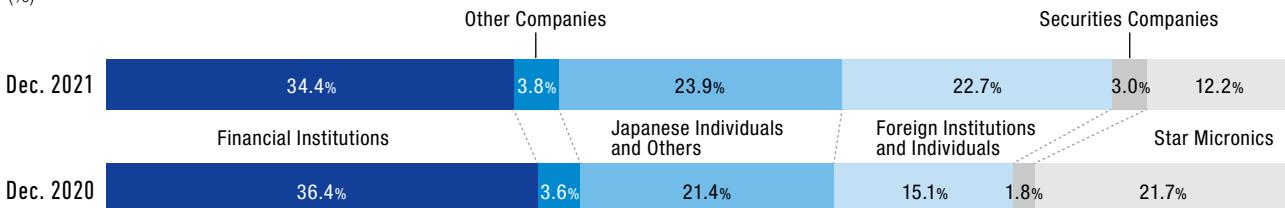
Stock Listing	First Section of the Tokyo Stock Exchange*2
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda, Tokyo 100-8212, Japan

*1 The decrease in the number of shares issued was due to a retirement of 1,000,000 shares.

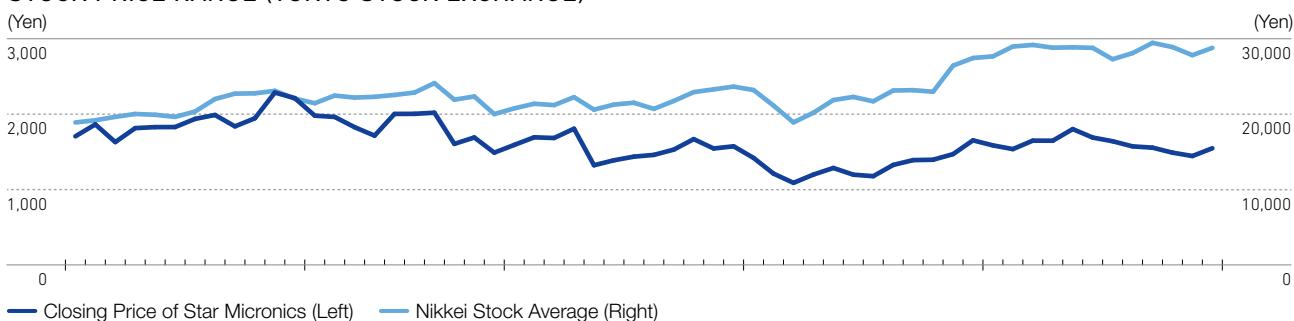
*2 Shift to the Prime Market from the First Section due to the market restructuring of the Tokyo Stock Exchange in April 2022.

COMPOSITION OF SHAREHOLDERS

(%)

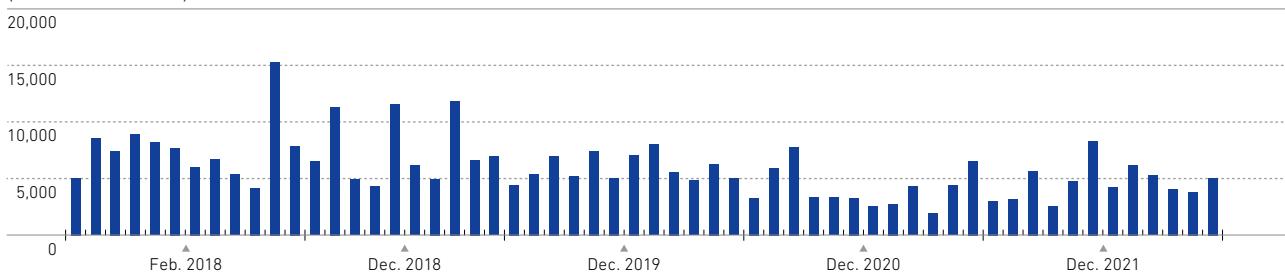


STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)



TRADING VOLUME

(Thousands of shares)



Notes: 1. This trading volume shows the monthly volume of trade on the Tokyo Stock Exchange.

2. Stock prices of Star Micronics and the Nikkei Stock Average are based on a simple average of daily closing prices for each day of every month at the Tokyo Stock Exchange.

STOCK PRICE

(Yen)

Year	Feb. 2018	Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021
At year-end	2,213	1,491	1,575	1,654	1,549
High	2,480	2,270	1,893	1,720	1,893
Low	1,588	1,332	1,258	945	1,416

STAR MICRONICS CO., LTD.

20-10 Nakayoshida, Suruga-ku,
Shizuoka 422-8654, Japan
Tel +81-54-263-1111
www.star-m.jp