

Fiscal 2018 Second-quarter Consolidated Earnings Report (Japanese GAAP)

These financial statements have been prepared for reference in accordance with accounting principles and practices generally accepted in Japan.

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Scheduled release of Fiscal 2018 Second-quarter Business Report: October 12, 2017

Scheduled payment of dividends: November 10, 2017

Preparation of supplementary explanatory materials for quarterly earnings report: Yes

Quarterly earnings presentation: Yes

(Figures less than one million are rounded down)

1. Results for the Second Quarter of Fiscal 2018 (March 1, 2017 to August 31, 2017)

(1) Consolidated Operating Results (Percentages represent changes over the corresponding period of the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
FY2018 Second Quarter	28,105	22.3	2,291	26.8	2,609	76.0	1,680	58.4
FY2017 Second Quarter	22,979	(15.4)	1,806	(36.7)	1,483	(40.0)	1,060	(42.9)

(Note) Comprehensive income FY2018 Second Quarter ¥1,467 million [—%] FY2017 Second Quarter ¥(2,790) million [—%]

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
FY2018 Second Quarter	45.07	39.47
FY2017 Second Quarter	26.26	24.73

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	(¥ million)	(¥ million)	%
As of August 31, 2017	70,271	43,968	61.4
As of February 28, 2017	68,350	43,754	62.8

Reference: Shareholders' Equity

As of August 31, 2017 ¥43,138 million As of February 28, 2017 ¥42,937 million

2. Dividends

	Dividends Per Share				
	1Q end	2Q end	3Q end	Year-end	Full Year
	(¥)	(¥)	(¥)	(¥)	(¥)
FY2017	—	24.00	—	24.00	48.00
FY2018	—	25.00			
FY2018(projected)			—	25.00	50.00

(Note) Changes to the latest dividend forecast announced: None

3. Consolidated Outlook for the Fiscal Year Ending February 28, 2018 (From March 1, 2017 to February 28, 2018)

(Percentages represent changes over the corresponding period of the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent		Net Income Per Share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Full Year	56,500	15.5	5,100	41.4	5,500	53.5	4,100	28.9	110.36

(Note) Changes to the latest consolidated results forecast announced: None

*Note

- (1) Significant changes in subsidiaries during the period under review (changes in certain specified subsidiaries resulting in revised scope of consolidation): None
New company: — (Company name) , Excluded company: — (Company name)
- (2) Adoption of special accounting treatment used in preparation of the quarterly consolidated financial statements: None
- (3) Changes in accounting policies, estimates and restatement or corrections
- (i) Changes associated with revised accounting standards: None
 - (ii) Changes other than those in (i) above: None
 - (iii) Changes in accounting estimates: None
 - (iv) Retrospective restatement: None

- (4) Number of shares issued and outstanding (common stock)

- (i) Number of shares issued and outstanding at period-end (including treasury stock)

As of August 31, 2017	47,033,234 shares	As of February 28, 2017	47,033,234 shares
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- (ii) Number of treasury stock at period-end

As of August 31, 2017	9,913,168 shares	As of February 28, 2017	9,741,728 shares
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- (iii) Average number of outstanding shares (during the six months ended August 31)

As of August 31, 2017	37,283,286 shares	As of August 31, 2016	40,394,740 shares
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* This quarterly earnings report is not subject to quarterly reviews.

* Regarding the appropriate use of earnings projections and other noteworthy matters

The above projections are based on information available at the time of release of this report and certain assumptions the Company considers reasonable. The Company does not promise that these projections will be achieved. Actual results may differ materially from projections due to a variety of factors. For information regarding the assumptions and other matters related to earnings projections in this report, refer to "(3) Explanation of the Consolidated Earnings Projections and Other Forecasts" under "1. Qualitative Information regarding Quarterly Consolidated Business Performance" on page 2.

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1. Qualitative Information regarding Quarterly Consolidated Business Performance

(1) Explanation of Consolidated Operating Results

Looking at economic conditions during the second quarter, the six-month period from March 1, 2017 to August 31, 2017, of fiscal 2018, the fiscal year ending February 28, 2018, the U.S. and European economy continued to exhibit signs of positive, but slow recovery. In Asia, there were indications of a favorable turnaround in China. On the domestic front, the Japanese economy remained along its modest recovery path.

In the major markets in which the Star Micronics Group operates, levels of demand in the machine tools market in Japan and overseas were both significantly higher compared with the corresponding period of the previous fiscal year. Demand in the POS-related market in the Special Products Segment was also robust mainly in European and Japanese markets. However, demand in the precision products-related market was sluggish.

Looking at movements in foreign currency exchange rates during the second quarter of fiscal 2018, the value of the yen against the U.S. dollar remained at levels similar to the corresponding period of the previous fiscal year while trending at a high level against the euro.

Under these circumstances, the Star Micronics Group reported a substantial increase in sales of ¥28,105 million for the second quarter of the fiscal year under review, up 22.3% year on year. This increase in sales was led mainly by growth in the Machine Tools Segment. From a profit perspective, operating income came to ¥2,291 million, an increase of 26.8% compared with the corresponding period of the previous fiscal year. Ordinary income amounted to ¥2,609 million, up 76.0% year on year. Despite posting an impairment loss for a manufacturing subsidiary in Thailand in the Precision Products segment, net income attributable to owners of parent grew substantially climbing 58.4% year on year, to ¥1,680 million.

Performance by segment was as follows:

(Special Products)

In POS printers, sales in the U.S. market were held to roughly the same level as the corresponding period of the previous fiscal year due to the impact of inventory adjustments by sales agents. Sales in the European market increased despite the effect of the strong yen. This was mainly attributable to the recovery trend in market conditions mainly in developed countries. In the Asian market, sales of dot impact printer in China declined. However, sales in Japanese market increased on the back of robust mPOS-related sales.

As a result, sales in the Special Products Segment edged up 4.7% compared with the corresponding period of the previous fiscal year, to ¥5,875 million. Operating income decreased 20.1% year on year to ¥640 million.

(Machine Tools)

In CNC automatic lathes, sales in the U.S. market increased substantially mainly in the medical equipment-related sector amid robust demand in each region. Despite the impact of the strong yen, sales grew substantially in the European market. This growth largely reflected capital expenditures mainly in automotive-related sector. Sales increased substantially in the Asian market, mainly in China, and Japanese market. This was largely attributable to strong sales in the automotive-related sector.

As a result, sales and profits increased substantially in the Machine Tools Segment. In specific terms, sales increased 32.6% compared with the corresponding period of the previous fiscal year, to ¥20,133 million and operating income increased 42.8% year on year, to ¥2,851 million.

(Precision Products)

Sales of wristwatch components declined owing to the ongoing impact of production adjustments by wristwatch manufacturers. Sales of non-wristwatch declined. Despite robust sales trends in medical-related components, this result was largely attributable to the decline in automotive and HDD components.

As a result, sales in the Precision Products Segment decreased 3.8% compared with the corresponding period of the previous fiscal year, to ¥2,097 million. Operating income improved 0.4% year on year to ¥163 million.

(2) Explanation of Financial Position

Total assets as of the end of the second quarter of the fiscal year under review stood at ¥70,271 million, an increase of ¥1,920 million compared with the end of the previous fiscal year. This was mainly attributable to an increase in securities, property, plant and equipment and investment securities. Total liabilities came in at ¥26,302 million, an increase of ¥1,706 million compared with the end of the previous fiscal year. This was largely due to an increase in trade payables. Total net assets increased ¥213 million compared with the end of the previous fiscal year, to ¥43,968 million. Due to the drop in foreign currency translation adjustments, this mainly reflected an increase in retained earnings.

(3) Explanation of the Consolidated Earnings Projections and Other Forecasts

Earnings projections remain unchanged from the projections announced on August 21, 2017.

2. Quarterly Consolidated Financial Statements
(1) Quarterly Consolidated Balance Sheet

(Unit: Thousands of yen)

	As of February 28, 2017	As of August 31, 2017
Assets		
Current assets		
Cash and deposits	20,777,539	21,056,366
Trade notes and accounts receivable	14,209,376	14,498,413
Securities	—	989,774
Merchandise and finished goods	10,698,809	9,823,324
Work in process	3,611,188	3,751,420
Raw materials and supplies	2,102,186	2,276,166
Deferred tax assets	158,262	236,340
Other	1,688,797	1,756,699
Allowance for doubtful accounts	(74,401)	(84,988)
Total current assets	53,171,760	54,303,516
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,564,379	5,116,230
Machinery, equipment and vehicles, net	3,347,167	3,039,743
Tools, furniture and fixtures, net	894,530	866,688
Land	2,984,099	2,942,849
Lease assets, net	56,807	89,884
Construction in progress	78,869	1,324,209
Total property, plant and equipment	12,925,854	13,379,606
Intangible assets		
Other	1,048,647	970,510
Total intangible assets	1,048,647	970,510
Investments and other assets		
Investment securities	733,570	1,146,344
Deferred tax assets	138,436	137,333
Other	332,391	334,004
Allowance for doubtful accounts	(37)	(31)
Total investments and other assets	1,204,360	1,617,650
Total Non-current assets	15,178,862	15,967,767
Total assets	68,350,623	70,271,284

(Unit: Thousands of yen)

	As of February 28, 2017	As of August 31, 2017
Liabilities		
Current liabilities		
Trade notes and accounts payable	4,676,447	5,872,451
Electronically recorded obligations-operating	2,147,907	3,165,266
Short-term loans payable	2,500,000	2,500,000
Lease obligations	21,928	30,348
Income taxes payable	503,719	560,156
Provision for bonuses	759,393	926,563
Provision for directors' bonuses	—	33,000
Other	4,051,263	3,338,986
Total current liabilities	14,660,661	16,426,774
Non-current liabilities		
Convertible bonds	8,068,000	8,060,000
Lease obligations	39,147	66,712
Net defined benefit liability	1,612,938	1,533,592
Other	215,342	215,825
Total non-current liabilities	9,935,427	9,876,131
Total liabilities	24,596,089	26,302,905
Net assets		
Shareholders' equity		
Capital stock	12,721,939	12,721,939
Capital surplus	13,939,178	13,951,714
Retained earnings	29,095,882	29,881,161
Treasury stock	(10,783,273)	(11,128,244)
Total shareholders' equity	44,973,727	45,426,571
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	140,279	151,400
Foreign currency translation adjustments	(1,354,059)	(1,742,065)
Remeasurements of defined benefit plans	(822,394)	(697,649)
Total accumulated other comprehensive income	(2,036,174)	(2,288,314)
Stock acquisition rights	210,329	229,167
Noncontrolling interests	606,650	600,953
Total net assets	43,754,533	43,968,378
Total liabilities and net assets	68,350,623	70,271,284

(2) Quarterly Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

(Quarterly Consolidated Statement of Income)

(Second six-month period)

(Unit: Thousands of yen)

	Second six-month period from March 1, 2016 to August 31, 2016, of FY2017	Second six-month period from March 1, 2017 to August 31, 2017, of FY2018
Net sales	22,979,557	28,105,957
Cost of sales	14,125,022	18,230,921
Gross profit	8,854,535	9,875,035
Selling, general and administrative expenses	7,047,912	7,583,584
Operating income	1,806,622	2,291,451
Non-operating income		
Interest income	61,504	67,042
Dividend income	26,788	6,202
Foreign exchange gains	—	196,585
Rent income	38,329	27,529
Electricity sales income	8,393	8,753
Miscellaneous income	87,821	39,976
Total non-operating income	222,837	346,091
Non-operating expenses		
Interest expense	3,509	2,592
Loss on valuation of investment securities	—	15,520
Foreign exchange loss-net	478,912	—
Cost of lease revenue	12,853	1,604
Electricity sales expense	6,026	5,315
Miscellaneous loss	44,982	2,612
Total non-operating expenses	546,284	27,645
Ordinary income	1,483,175	2,609,897
Extraordinary income		
Gain on sales of non-current assets	1,837	1,775
Total extraordinary income	1,837	1,775
Extraordinary losses		
Loss on disposal of non-current assets	3,577	20,265
Impairment loss	—	286,405
Total extraordinary losses	3,577	306,670
Income before income taxes	1,481,436	2,305,001
Income taxes-current	458,579	681,630
Income taxes-deferred	(86,971)	(103,687)
Total income taxes	371,607	577,942
Net income	1,109,828	1,727,059
Net income attributable to noncontrolling interests	49,084	46,784
Net income attributable to owners of parent	1,060,743	1,680,275

(Quarterly Consolidated Statement of Comprehensive Income)
(Second six-month period)

(Unit: Thousands of yen)

	Second six-month period from March 1, 2016 to August 31, 2016, of FY2017	Second six-month period from March 1, 2017 to August 31, 2017, of FY2018
Net income	1,109,828	1,727,059
Other comprehensive income		
Valuation difference on available-for-sale securities	(45,129)	11,121
Foreign currency translation adjustments	(3,864,564)	(381,656)
Remeasurements of defined benefit plans, net of tax	55,290	124,744
Share of other comprehensive income of entities accounted for using equity method	(45,613)	(13,615)
Total other comprehensive income	(3,900,017)	(259,405)
Comprehensive income	(2,790,188)	1,467,654
Total comprehensive income attributable to:		
Owners of parent	(2,736,125)	1,428,135
Noncontrolling interests	(54,063)	39,518

(3) Notes to Quarterly Consolidated Financial Statements

(Note on Going Concern Assumption)

Not applicable

(Note on Significant Changes in Shareholders' Equity Accounts)

(Repurchase of Shares)

The Company resolved to repurchase 218,500 of its own shares during the period from August 22, 2017 to August 31, 2017 at a meeting of its Board of Directors held on August 21, 2017. As a result, the balance of treasury stock increased ¥396,986 thousand in the second quarter of the fiscal year under review and stood at ¥11,128,244 thousand as of August 31, 2017.