Tomorrow's Answers Now

ANNUAL REPORT 2012

For the year ended February 29, 2012

STAR MICRONICS CO., LTD.

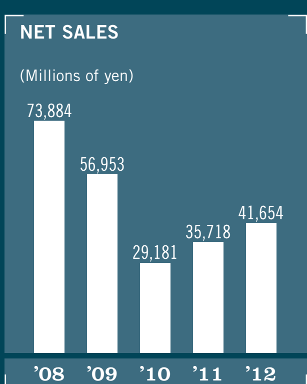
Financial Highlights

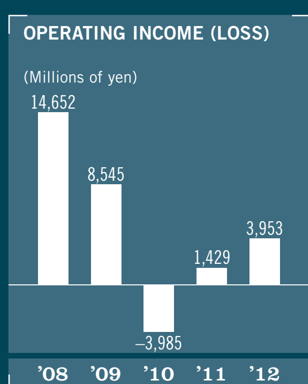
Star Micronics Co., Ltd. and Consolidated Subsidiaries
For the years ended February 2010, 2011 and 2012

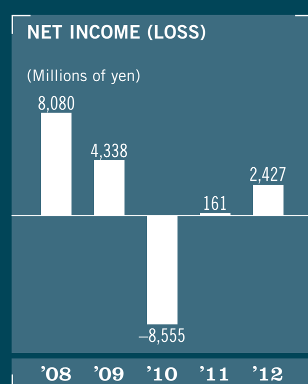
	Millions of yen			Change (%)	Thousands of U.S. dollars
	2010	2011	**2012**	2012/2011	**2012**
For the year:					
Net sales	¥29,181	¥35,718	**¥41,654**	16.6 %	**$514,247**
Operating income (loss)	(3,985)	1,429	**3,953**	176.6	**48,802**
Net income (loss)	(8,555)	161	**2,427**		**29,963**
Return on sales		0.5%	**5.8%**		
Capital expenditures	1,586	974	**2,040**	109.4	**25,185**
Depreciation and amortization	2,884	1,762	**1,607**	(8.8)	**19,840**
At year-end:					
Total assets	50,681	49,250	**51,925**	5.4	**641,049**
Total equity	41,261	37,096	**36,980**	(0.3)	**456,543**
Equity ratio	80.1%	73.9%	**70.2%**		
	Yen			Change (%)	U.S. dollars
Per share:					
Basic net income (loss)	¥ (187.95)	¥ 3.71	**¥ 56.94**		**$0.70**
Cash dividends applicable to the year	22.00	22.00	**26.00**	18.2 %	**0.32**
Stock information:					
Common shares issued	51,033,234	51,033,234	**47,033,234***		
Number of shareholders	11,915	10,929	**11,353**		

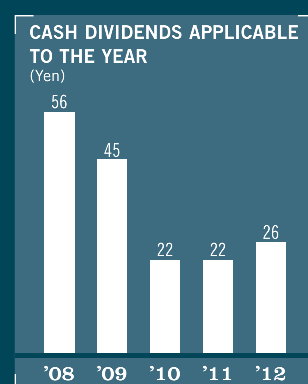
Note: The rate of ¥81 to US$1, prevailing on February 29, 2012, has been used for translation into U.S. dollar amounts.

* The number of outstanding stock declined by 4,000,000 shares compared to February 28, 2011, as a result of the cancellation of some of our treasury stock.









Contents

00 Financial Highlights
01 Profile
02 At a Glance by Region
04 To Our Shareholders
Decisions Made With an Eye to the Future
09 Business Review
10 Review of Operations
10 Special Products
11 Components
12 Machine Tools
13 Precision Products
14 Corporate Governance
16 Consolidated Eleven-Year Summary
18 Management's Discussion and Analysis
24 Consolidated Balance Sheets
26 Consolidated Statements of Income
Consolidated Statement of Comprehensive Income
27 Consolidated Statements of Changes in Equity
28 Consolidated Statements of Cash Flows
29 Notes to Consolidated Financial Statements
47 Independent Auditors' Report
48 Stock Information
49 Corporate Data

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.

Profile

Now Is the Beginning of the Answers for Tomorrow

Star Micronics is taking steps to prepare for the future now amid a rapidly changing business environment. We are confident that the bold initiatives we take today will open the way to new growth opportunities tomorrow.

Established in 1950, Star Micronics Co., Ltd. possesses the strength of developing and manufacturing high-added-value products based on its core technologies of small-scale precision processing and assembly, aiming for more than half a century to realize businesses that “generate the greatest impact from the least materials.”

Our heritage from the beginning has also been to develop businesses globally in terms of both sales and production.

Currently, Star Micronics is engaged in four businesses: special products, mainly point-of-sale (POS) printers; components, comprised of micro audio components; machine tools, mainly CNC automatic lathes; and precision products, mainly wristwatch components and hard disk drive (HDD) components. Moreover, overseas sales comprise about 80% of all sales, and overseas production comprises roughly 70% of all production.

Going forward, Star Micronics will leverage the strengths it has built up to develop its businesses and maximize its corporate value.

At a Glance by Region

In principle, Star Micronics seeks out global niche markets in developing business domains. Our corporate value is enhanced by taking a global perspective in optimizing everything from planning and development to manufacturing and sales in growth markets, such as emerging countries, where we do business.

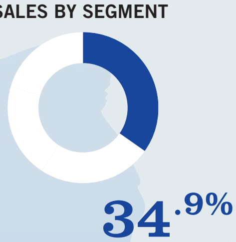
Our First Business Base in Russia

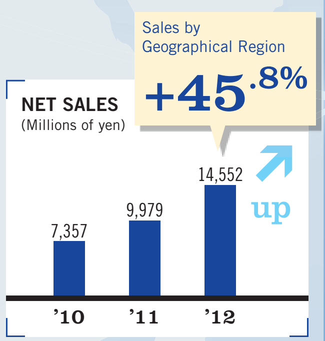
In December 2011, Star Micronics Europe Ltd. (100% investment by Star Micronics; Location U.K.), a European sales subsidiary of our Special Products business, established an office in Moscow. This first business base in Russia will strengthen our marketing activity locally and enable us to provide stronger support to sales agents and customers. Star Micronics Europe plans to use this office to double POS printer sales in Russia over the next three years.

The Russian economy has continued to grow steadily on the back of rising crude oil prices and other factors. In this environment, POS systems are being used more widely at retailers and other locations. Accordingly, Russia's POS printer market has become a promising market—one that offers prospects for continued expansion.

Europe

SALES BY SEGMENT

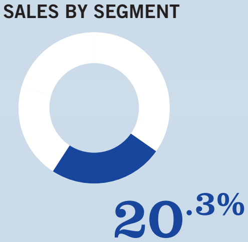


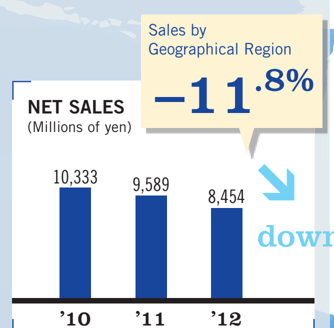


- The Special Products business saw demand and sales of its products recover to match the previous year. This was despite uncertain business conditions owing to the sovereign debt problem in Southern Europe and political unrest in the Middle East.
- The Machine Tools business, on the other hand, saw business increase as the weakening euro bolstered the competitiveness of European exporters and whetted their appetite for capital investments.

Asia

SALES BY SEGMENT





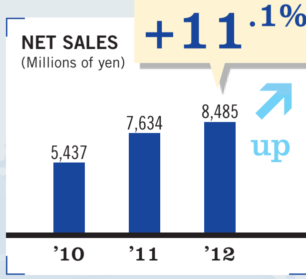
- In Asia, growth in demand for the Special Products business in China slowed.
- By contrast, sales in the Machine Tools business were buoyed by strong demand from auto and motorcycle makers eager to make capital investments in Asia.
- Our Precision Products business, on the other hand, was affected by the flooding in Thailand, and sales of HDD components consequently declined. Sales of components to automakers also declined due to model changes at target customers, and the impacts of the Great East Japan Earthquake.

Japan

Sales by Geographical Region
+11.1%

SALES BY SEGMENT

20.4%



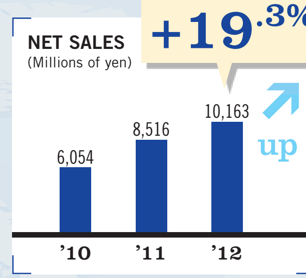
- The Machine Tools business in Japan saw sales increase in response to a recovery in demand from automakers.
- Our Precision Products business saw wristwatch component sales increase on the back of a firm sales trend for wristwatches made in Japan.

America

Sales by Geographical Region
+19.3%

SALES BY SEGMENT

24.4%



- Our Special Products business saw sales increase as demand continued to recover in the North American market on top of the strong demand from South America.
- The Machine Tools business saw sales in the Americas rise against increased capital investment activity within the automotive industry and the medical equipment industry.

Strengthened Business Development Overseas with a Focus on Asia

In September 2011, our Special Products business established a sales subsidiary in Bangkok, Thailand, to serve as the base for strengthening sales activity in Southeast Asia. In addition, the Machine Tools business established a new manufacturing subsidiary in Nakhon Ratchasima, Thailand, in February 2012. Looking ahead, Star Micronics will steadily build a sales and production framework in Southeast Asia where the growth prospects remain attractive.

Meanwhile, the manufacturing base for our Precision Products business in Ayutthaya, Thailand, is recovering from damage it incurred amid the flooding in the region last fall. We plan to completely reopen this plant as soon as possible and capture local demand.

Star Micronics Southeast Asia Co., Ltd.

Star Micronics Precision (Thailand) Co., Ltd.

To Our Shareholders

Decisions Made With an Eye to the Future

We have stayed ahead of severe and rapidly changing business conditions, maneuvering tactically to overcome various challenges to the Star Micronics Group's performance. As a result, the Star Micronics Group made steady progress in achieving improved business results.

Going forward, we will live up to the expectations of our shareholders by firmly leveraging our solid business base and prioritizing profitability in the global niche markets we serve.

Sales and profits rose, driven by strong business performance mainly in the Machine Tools Segment.

Review of Business Performance

In fiscal 2012, the year ended February 29, 2012, the U.S. economic recovery slowed and the European economies overall also lost momentum amid growing concerns for the fiscal and financial soundness of the euro-zone countries. Meanwhile, Asia generally maintained strong rates of economic growth, despite the effects of tighter monetary policies in China. In Japan, there were signs the economy was recovering from a sustained but transitional period of severity that was brought on by the Great East Japan Earthquake. The yen's foreign exchange rate, meanwhile, remained strong against major currencies.

Amid this environment, the Star Micronics Group's business performance was driven by strong orders in the Machine Tools Segment, primarily from the Group's main markets in Europe and the U.S. By contrast, the Components Segment experienced a substantial decline in sales as a consequence of withdrawing from unprofitable businesses. Sales firmed, however, for both the Special Products and Precision Products segments.

As a result, the Star Micronics Group reported a 16.6% increase in consolidated net sales to ¥41,654 million in fiscal 2012. Profits improved significantly, with the Group reporting a 176.6% upswing in operating income to ¥3,953 million and a surge in net income to ¥2,427 million, from ¥161 million in fiscal 2011.

To compensate our shareholders, Star Micronics has decided to pay a full-year dividend of ¥26 per share.

Looking at the markets by region, I anticipate a recovery in the U.S. economy along with stable growth in Asia, even though I expect economic conditions in Europe to remain unstable.

Market Outlook

Global economic conditions leave little room for optimism in fiscal 2013, the year ending February 28, 2013. But if we divide the global economy into its U.S., European, Asian and Japanese components, I see the U.S. offering the most prospects for economic recovery. Among my reasons for this is that I expect there will be policy attempts to stimulate the U.S. economy in advance of the presidential election this fall, in addition to the fact that macroeconomic indicators have begun to improve recently. Should the U.S. economy indeed begin to recover, I would expect personal consumption to spur the U.S. economy further, given the historical propensity that U.S. consumers have for high levels of spending.

The second prospect in line is Asia. As a result of a free trade agreement (FTA) that the Association of Southeast Asian Nations (ASEAN) concluded with India, the two markets combined now account for over 1.7 billion people. Add China to this mix, and the markets in Asia comprise 40% of the global population. The sheer size of this population represents both a huge market for us and the likelihood of economic growth. Consequently, I expect the ASEAN economies to expand at an average rate of 5–6% a year. Apart from that, China recently announced that it had lowered its target for economic growth in 2012 to 7.5%. Although, I should perhaps remind you that this is a level that remains inconceivably high by most U.S. and European standards.

By contrast, I expect economic conditions in Europe to remain unstable for the foreseeable future, given the fiscal and financial problems that the nations participating in the European currency are facing. I am therefore refraining from holding any expectations for Europe in 2012, as I don't see the eurozone's problems being resolved in the near future.

Japan, on the other hand, is aging rapidly with fewer children, and so is saddled with the problem of a population about to decline. Hence, there is little hope of the Japanese market growing substantially.

Markets in Europe and the U.S. will remain vital to Star Micronics, even as we begin promoting business development centered on Asia, where growth is expected.

Fiscal 2013 Outlook and Medium-Term Outlook

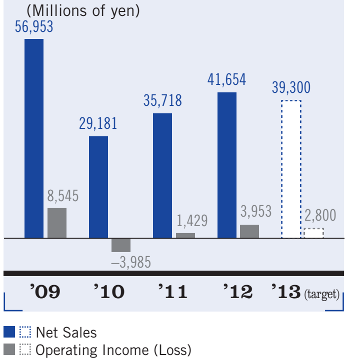
The European and North American markets will remain important to Star Micronics. However, the Company will emphasize the enhancement of its business development overseas in Asia, where growth can be expected. Asia represents a promising market with plenty of growth potential available still for virtually all of the Group's business segments. Having established a sales subsidiary in Bangkok, Thailand, our Special Products Segment now has a base for bolstering sales and substantially improving its market coverage of Southeast Asia. The Machine Tools Segment, moreover, established a new manufacturing subsidiary in Nakhon Ratchasima, Thailand, in February 2012, and preparations are underway to commence operations. Meanwhile, a production plant of the Precision Products Segment is recovering from the damage it incurred amid the flooding in Thailand last fall. We plan to completely reopen this plant as soon as possible and begin taking in local demand.

Our business environment in the U.S. will probably be immune to major swings in the economy, given that our sales of machine tools there are 60% to the medical equipment industry. U.S. companies also generate firm demand for our machine tools in South America where they are in the process of expanding in Brazil, Argentina and elsewhere. What's more, South American demand is also strong for the POS printers that our Special Products Segment manufactures.

Our levels of orders for machine tools from Europe were very strong in the year ended February 29, 2012. This was the upshot of the improved automobile sector in Germany and other European exports that grew from a weakening of the euro. With exports bolstering their earnings, many European companies then decided to invest in plant and equipment. That demand appears to have waned recently, however, given the new economic realities. I therefore believe that the outlook comprises much tougher business conditions in Europe.

Consequently, for the year ending February 28, 2013, Star Micronics is projecting ¥39,300 million in net sales, ¥2,800 million in operating income and ¥3,200 million in net income.

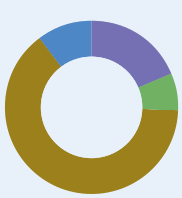
NET SALES AND OPERATING INCOME (LOSS)
(Millions of yen)



Initiatives by Business Segment

Special Products: The main target in this segment is to raise market share primarily in Asia, while staying on top of the business trends in South America. In particular, we will focus our effort most of all on cultivating our business in the Southeast Asian market. In the past, Special Products had relied primarily on agents for sales in this region. The establishment of a sales subsidiary in Bangkok, Thailand, however, has changed all that. The segment now has an arena for interacting directly with customers that will enable us to proactively launch our own sales activities in the region.

SALES BY SEGMENT



Special Products	18.7%
Components	7.1%
Machine Tools	64.0%
Precision Products	10.2%

The Star Micronics Group also has the software capability to develop distinctive functions and bring special products that are commercially competitive to life. Special Products aims to leverage this capability, as well as a line of mobile printers for on-demand settlement systems, to expand sales.

Components: Our business focus in components had shifted from mobile phones to automobiles in the pursuit of profitability. However, having decided that a major upturn in earnings for this segment is unlikely, we intend to sell and close our Components Segment in the year ending February 28, 2013. However, we plan to continue researching the micro audio technologies we have been nurturing, with the intention of commercializing them as products in the future.

Machine Tools: To build a solid earnings base in machine tools, we will cultivate the growing markets in China and other parts of Asia, as well as heighten our presence in the primary European and U.S. markets. Our task looking ahead is to expand our market share of CNC automatic lathes by increasing sales and further strengthening our lineup of turning centers, and also of our fixed headstock automatic lathes that we launched in the year ended February 28, 2011.

On the manufacturing front, we are preparing to ramp up production with the new factory we have established in Thailand. To that end, we will work to optimize our machine tool manufacturing framework, consisting now of our three production bases in Japan, China and Thailand.

Precision Products: Few competitors operate on a scale comparable to the Star Micronics Group as regards machine processing precision products, or indeed are capable of integrating production through the plating and heat treatment stage, for that matter. These advantages will serve us well in responding to a broad range of market needs, thereby steadily raising the segment's business performance. The main target for this segment is sales expansion overseas. The Precision Products Segment has a medium-term vision of raising annual sales from each of three overseas bases in Dalian and Shanghai (China), and Ayutthaya (Thailand) to ¥1,000 million, thereby doubling its current annual sales overseas to ¥3,000 million in total.

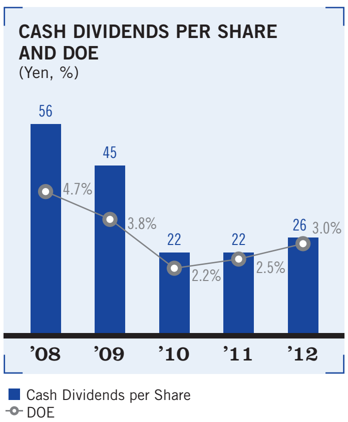
We have introduced an Executive Officer System to achieve efficient management.

Corporate Governance

At Star Micronics, our basic approach to corporate governance is based on fulfilling our social responsibilities as a company by working to increase corporate value in a sustained manner through transparent and efficient management, and appropriately distributing the resulting profits to shareholders and other stakeholders.

What's more, in order to respond rapidly and flexibly to changes in the business environment, Star Micronics introduced an Executive Officer System on March 1, 2012 to speed up management decision-making and increase the efficiency of business execution by management. To do this, the system separates the management decision-making and supervisory functions from the business execution function.

Star Micronics has both increased its dividend paid and executed the acquisition and retirement of treasury stock. Looking ahead, we are on the lookout to identify good M&A opportunities.



To Our Shareholders and Investors

The standing management policy of Star Micronics is not to merely pursue expansion of business size, but to promote growth strategies with an emphasis on profitability that are proportionate to our capabilities in the global niche markets we serve. Furthermore, we aim to be an attractive company in the eyes of our shareholders and other investors, particularly for those who are seeking long-term shareholdings.

We base our decisions regarding the distribution of profits on a target consolidated dividend payout ratio of at least 40% while taking into account our consolidated dividend on equity (DOE). Consequently, we decided to raise our annual divided by ¥4 to ¥26 per share in the year ended February 29, 2012. In the medium term, our policy is to aim for a DOE in excess of 4.5% by the year ending February 28, 2015. We emphasize the return of profits to shareholders and are working to achieve a stable and consistent increase in dividends.

Moreover, to implement a more flexible capital policy that is responsive both to efforts to boost capital efficiency and to a changing operating environment, we purchased 1 million shares of treasury stock in October 2011, followed by the cancellation of 4 million shares of treasury stock. As a result, the remainder in our balance of treasury stock was roughly 5 million shares. We plan to continue examining M&A transactions involving the exchange of equity as a method for utilizing this treasury stock.

In conclusion, Star Micronics is staunchly committed to achieving the best outcomes possible amid a business environment that remains lacking in transparency. I ask for the continued support and understanding of our shareholders and other investors as we work to meet their expectations.

May 2012

Hajime Sato
President and CEO

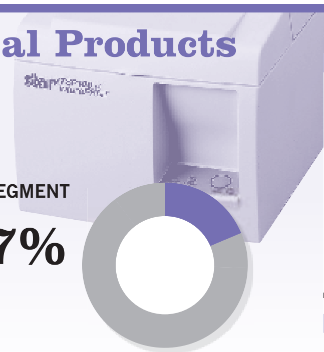
Business Review

	NET SALES	OPERATING INCOME (LOSS) & OPERATING INCOME RATIO

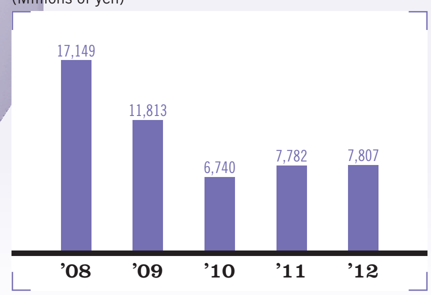
Special Products

SALES BY SEGMENT

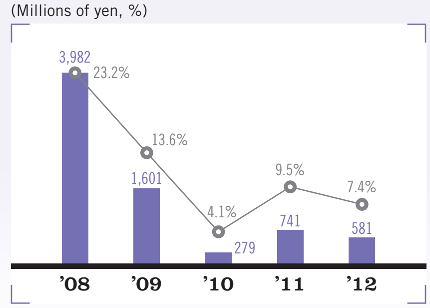
18.7%



(Millions of yen)



(Millions of yen, %)

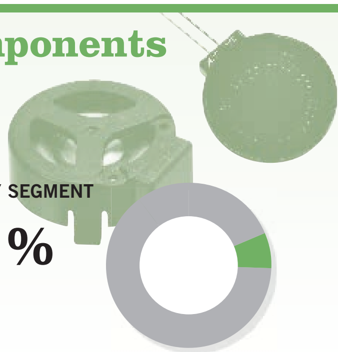


Operating Income   Operating Income Ratio

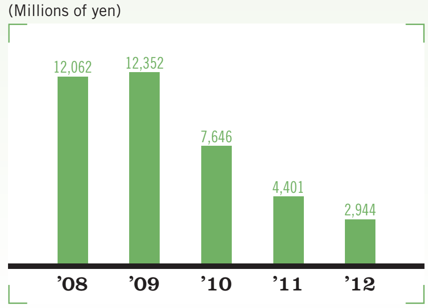
Components

SALES BY SEGMENT

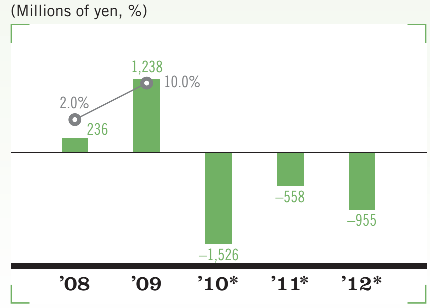
7.1%



(Millions of yen)



(Millions of yen, %)

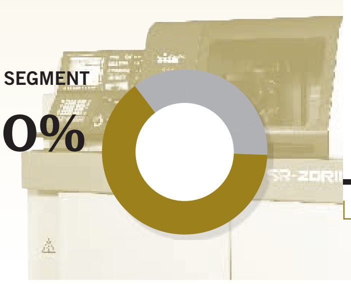


Operating (Loss) Income   Operating Income Ratio*

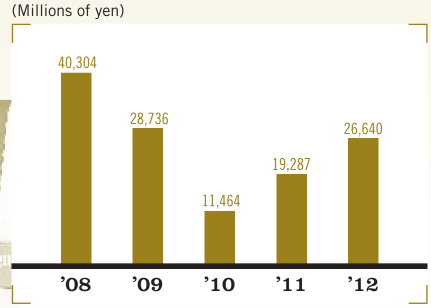
Machine Tools

SALES BY SEGMENT

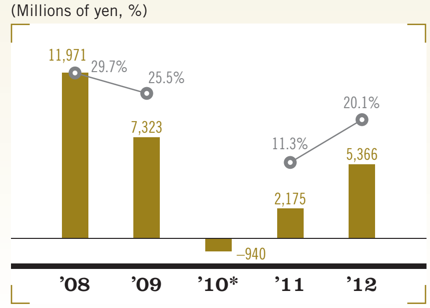
64.0%



(Millions of yen)



(Millions of yen, %)

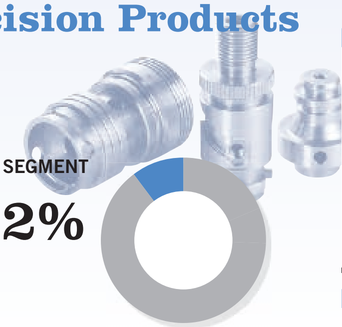


Operating Income (Loss)   Operating Income Ratio*

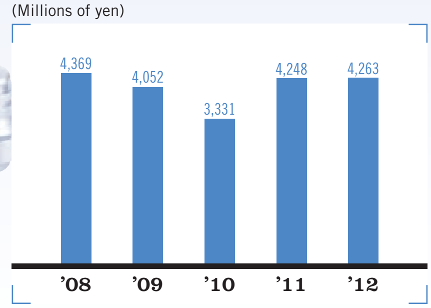
Precision Products

SALES BY SEGMENT

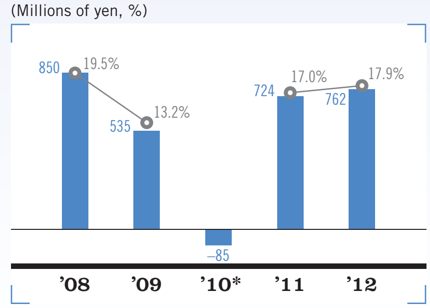
10.2%



(Millions of yen)



(Millions of yen, %)



Operating Income (Loss)   Operating Income Ratio*

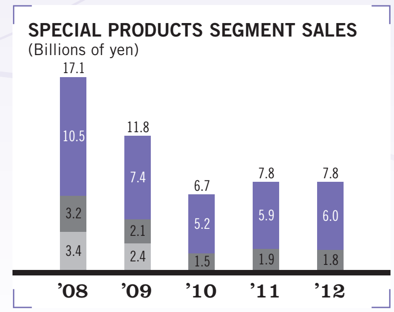
* No operating income ratio was calculated due to operating losses reported for all business segments except for Special Products in the fiscal year ended February 2010, and an operating loss reported for the Components Segment in the fiscal years ended February 2011 and 2012.

Review of Operations

Special Products

Segment profits declined on flat sales as the Chinese market began to slow and foreign exchange rates had an effect, despite firm demand from South America and the other emerging markets.

TSP100ECO POS Printer



POS Thermal Printers and Others
POS Dot Matrix Printers
Computer Printers

* The Company withdrew from computer printers in the fiscal year ended February 2009.

Business Environment and Results in Fiscal 2012

Point-of-sale (POS) printers found in places such as department stores, supermarkets and restaurants are the main products in the Special Products Segment. The segment has built its business on lines of products that steadfastly reflect the needs of customers and society, such as the eco-friendly *TSP100ECO* POS printer that has features for consuming less paper and energy.

To strengthen its competitiveness, the segment embraces a two-pronged approach of providing the leading industrial markets with high-value-added products on the cutting edge of IT, while supplying the emerging markets with products that are primarily cost competitive. To this end, the segment has strengthened its technological capabilities centered on software engineering, honed its pricing competitiveness and built an optimal global sales and marketing organization to boost its market share even further.

However, the segment was enveloped in a severely challenging business environment during fiscal 2012. The segment faced the emergence of even more competing manufacturers based in the emerging markets and a further appreciation of the yen, in addition to a global economy that was snagged by setbacks such as the fiscal crisis in Europe.

By region, market environments in the Americas were comparatively stable. POS printer sales in the Americas continued to increase on recovering demand in North America and remarkably strong conditions in the South American market. In Europe, demand for our POS printers recovered just enough for sales to remain flat, despite the fiscal crisis among countries in Europe and the political turmoil in the Middle East.

Feature Column

Market Potential of Mobile Printers Capable of Roaming Settlements and Door-to-door Ticketing of Parcel Acceptances and Deliveries

Cash registers that are fixed in place present a range of problems, from long cash register lines at supermarkets and home appliance mass retailers, to the security risk of entrusting credit cards to waiters and waitresses in restaurants. Mobile printers make cash registers portable, and enable sales staff to settle credit card payments and issue receipts with customers on the sales floor and at the tableside.

Furthermore, Star Micronics printers come standardly equipped with a magnetic card reader and can be used in combination with most popular smartphone models to configure a low-cost system for settling credit card payments and administering the incentive points to membership cards.

Star Micronics launched such a printer terminal for sale in the U.S. in 2010, and has since received many business inquiries regarding their potential as an on-demand settlement system. In Japan, our *SM-S220* mobile printer was officially adopted by NTT DATA Corporation as the printer for a new cloud service for smartphones and tablets that started trials in April 2012.

We plan to steadily develop mobile printers as a business in light of the dynamic range of their market potential.

SM-S220

By contrast, sales in China fell after the government began to tighten monetary policy toward the latter half of the year ended February 2012, and this dampened the demand primarily among large-order customers for dot matrix printers.

As a result, segment sales increased 0.3% to ¥7,807 million (US$96,383 thousand) in contrast to a 21.6% drop in operating income to ¥581 million (US$7,173 thousand) in the fiscal year under review.

SHIPMENTS OF POS PRINTERS
(Thousands of units)

	2011	2012	Change (%)
Europe	118	**132**	11.9
America	192	**242**	26.0
Asia	139	**135**	(2.9)
Japan and elsewhere	46	**32**	(30.4)
Total	495	**541**	9.3

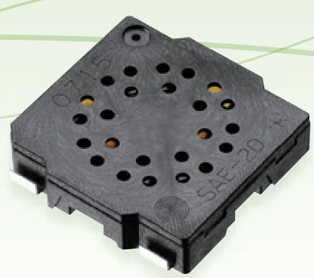
Outlook for Fiscal 2013

The segment will continue to supply a product line of POS printers tailored to market needs and build a sales and marketing organization capable of responding to customers with flexibility and attention to detail. We expect demand to continue expanding in the emerging markets, primarily in Latin America, Russia and the Middle East, and will work to expand our sales of cost competitive, strategic POS printer models in these regions. We will also fully enlist our newly established operation in Russia and other business bases around the world to capture global market needs, while striving simultaneously through our sales base in Thailand to cultivate the market in Southeast Asia.

For business results, we are projecting segment sales of ¥8,850 million, up 13.4% from the previous fiscal year, and operating income of ¥830 million, an increase of 42.9% year on year.

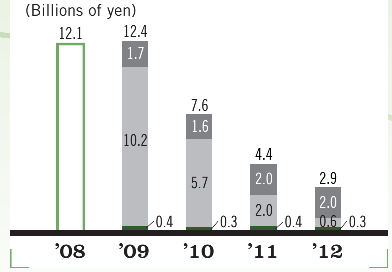
Components

We expect Components sales to diminish substantially as we reduce the number of low-margin products we handle. We also plan to close the segment in the year ending February 2013.



Speaker SAE-20A

COMPONENTS SEGMENT SALES
(Billions of yen)



Products for Automobiles　Mobile Devices
Home Electric Appliances, Medical and Others
Figures by product category are not disclosed for the period up to and including fiscal 2008 due to changes in the range of products handled.

Business Environment and Results in Fiscal 2012

The Components Segment includes a wide range of micro audio components, including microphones, receivers, speakers and electronic buzzers. In an effort to cultivate new markets, our business focus in components had shifted from mobile phones to automotive electronics and a wide range of other digital equipment. However, since we do not expect earnings to recover in the Components business, we have plans instead to close this segment and sell it.

In fiscal 2012, sales of components to the automobile market were on a par with the same period a year earlier, owing to automobile production recovering after stagnating temporarily in the wake of the Great East Japan Earthquake. By contrast, we saw a sizable decline in sales of components for mobile phones and other mobile devices, once we decided to reduce the low-margin items in our product line.

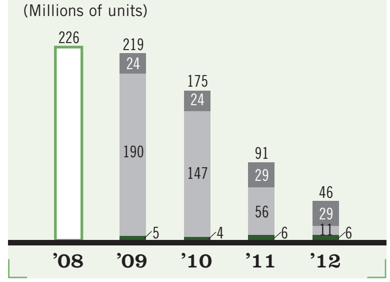
As a result, sales in the Components Segment declined 33.1% to ¥2,944 million (US$36,346 thousand). With this decline in sales, the segment posted an operating loss of ¥955 million (US$11,790 thousand).

Outlook for Fiscal 2013

We will focus our efforts in the year ending February 2013 on selling the Components Segment and closing it down. Assuming segment sales decline 10.0% to ¥2,650 million, our projections call for a containment of operating loss at ¥270 million.

On the other hand, we plan to retain the Segment's R&D department and continue researching the micro audio technologies we have been nurturing for the past 40 years, as we seek new business opportunities in the future.

COMPONENTS SEGMENT SALES BY VOLUME
(Millions of units)

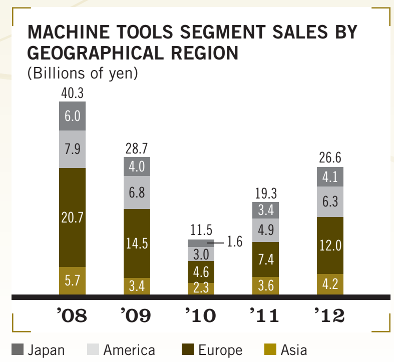


Products for Automobiles
Mobile Devices
Home Electric Appliances, Medical and Others
Figures by product category are not disclosed for the period up to and including fiscal 2008 due to changes in the range of products handled.

Machine Tools

The Machine Tools Segment's sales and earnings increased on the back of firm market conditions. We are striving to improve our profitability further by introducing new products and building up our production structure.

ECAS-20T Swiss-Type Automatic Lathe



Business Environment and Results in Fiscal 2012

Star Micronics' Swiss-Type CNC automatic lathes have garnered international acclaim and enjoy high market shares globally. Key products are the *SV* series, ideal for the high-precision, complex machining required in the manufacture of medical and other components; the top-of-the-range *ECAS* series, which incorporates the Star Motion Control System; and the *SB* series that offers superior cost performance.

In fiscal 2012, market conditions improved around the world, contributing initially to an increase in orders and sales. However, the financial crisis in Europe began affecting the segment's performance toward the end.

By region, the European market saw increased capital investment among companies in export-related sectors triggered by a weaker euro. Orders were especially strong from the automobile sector in Germany. Together, these factors resulted in significant sales growth in the European market. Sales in the U.S. market increased due to a pickup in capital investment in medical-related sectors and in the automobile sector. Sales grew firmly in the Asian market too, supported by growth in the East Asian market and robust capital investment in the Southeast Asian market in the automobile and motorcycle-related sectors. In the Japanese market also, sales increased as production recovered principally among automakers.

During the year under review, the Group introduced two new models, the *SB-12II* and *SB-16II*, for enhancing the lineup of the best-selling *SB* series, and the *CSC16*, a CNC automatic lathe developed jointly under the GEILI brand for cultivating the low-end in the Chinese market. In addition, the Group launched the *SW-20* as a new product for targeting a wide range of fields where complex parts need to be machined, such as the automotive and medical equipment industry.

Also, Machine Tools established a new manufacturing base in Nakhon Ratchasima, Thailand, in February 2012. This new site augments our bases in Japan and Dalian, China, with the aim of strengthening manufacturing capacity. The facility is scheduled to commence operations at the beginning of 2013.

As a result, both sales and income in fiscal 2012 improved greatly over the previous year. Sales volume increased a sizeable 32.2% to 1,977 units. By value, sales rose a substantial 38.1% to ¥26,640 million (US$328,889 thousand), while operating income totaled ¥5,366 million (US$66,247 thousand).

Feature Column

Star Micronics Exhibits at EMO Hannover, One of the World's Largest Trade Fairs for the International Machine Tool Industry

In September 2011, Star Micronics exhibited products including its newly developed *SW-20* Swiss-type automatic lathe and *SF-25* turning center at this major trade fair in Germany.

The new *SW-20* was well received among those in attendance at EMO Hannover for its capacity to significantly reduce processing times. The Star Micronics booth was thronged by customers even amid many competitors who were also there to exhibit their products.

Outlook for Fiscal 2013

Our machine tool markets have lacked transparency due to the ongoing fiscal crisis in Europe and China's decision to tighten its monetary policy. Consequently, we must carefully guide our Machine Tools segment to remain in step with changes in the market environment.

To this end, we will step up the development of new products and allocate human resources with the aim of building up a track record in Asia and emerging markets. Having brought the new factory in Thailand on line, we will work to establish a supply chain capable of sustaining the segment's growth and earnings expansion by optimizing the segment's production structure around three manufacturing bases in Japan, China and Thailand. In order for sales to grow, we will also launch a series of turning centers we have newly developed for processing small precision components, as well as a series of fixed-head CNC automatic lathes for processing precision components with large diameters.

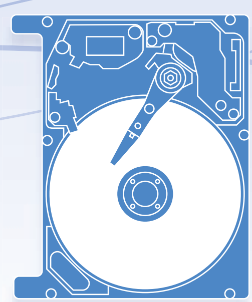
MACHINE TOOLS SEGMENT SALES VOLUME BY GEOGRAPHICAL REGION
(Units)

	2011	2012	Change (%)
Japan	295	**374**	26.8
America	258	**355**	37.6
Europe	429	**715**	66.7
Asia	514	**533**	3.7
Total	1,496	**1,977**	32.2

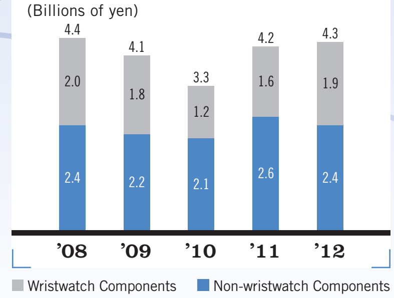
In consideration of a lull in the machine tools market toward the end of the year ended February 2012, we are projecting sales to decline 12.9% to ¥23,200 million and operating income to fall 34.2% to ¥3,530 million for the Machine Tools Segment in the year ending February 2013.

Precision Products

Sales of wristwatch components increased as sales held firm among Japanese wristwatch makers. By contrast, in the non-wristwatch components business, flood damage in Thailand caused HDD components sales to fall.



PRECISION PRODUCTS SEGMENT SALES
(Billions of yen)



Business Environment and Results in Fiscal 2012

The products in this segment are divided into two main areas: wristwatch components, a business the Company has been involved in since it was founded, and non-wristwatch precision components (also referred to as non-wristwatch components).

Wristwatch component sales increased 16.5% year on year to ¥1,881 million (US$23,222 thousand) as sales held firm among Japanese wristwatch makers.

In contrast, non-wristwatch components saw sales of automobile components decline, primarily due to model changes among target customers and the impact of the Great East Japan Earthquake. Sales of components for small hard disk drives (HDDs) also declined, mainly owing to flood damage at our production site in Thailand. Operations partly resumed at our Ayutthaya production site in March 2012, with restoration work proceeding for a return to full operations by the middle of 2012.

As a result, non-wristwatch components sales fell 9.5% year on year to ¥2,382 million (US$29,407 thousand), and accounted for 55.9% of total segment sales.

Consequently, total segment sales increased 0.4% to ¥4,263 million (US$52,629 thousand). As a result of the sales increase, the Precision Products Segment posted operating income of ¥762 million (US$9,407 thousand).

Outlook for Fiscal 2013

We think that our target customers in the Precision Products Segment will speed up the development of supply chains consisting of multiple supply sites in response to the Great East Japan Earthquake and the Thai floods. To this end, we will strengthen our production capacity around the world and work to expand sales, while doing all that we can to quickly restore operations at the segment's production subsidiary in Thailand. The trend towards supply chains consisting of multiple sites presents us with an opportunity to initiate sales and marketing activities aimed at increasing the orders our manufacturing bases receive.

Consequently, we are projecting segment sales of ¥4,600 million, up 7.9% year on year, and a 2.4% increase in operating income to ¥780 million.

Corporate Governance

At Star Micronics, our basic approach to corporate governance is based on fulfilling our social responsibilities as a company. To this end, we strive for management that is both transparent and efficient at sustainably raising corporate value, while distributing an appropriate amount of the resulting profits to our shareholders and other stakeholders.

Star Micronics uses the corporate auditor system. Under this system, a Board comprised of six directors with in-depth knowledge of the Company is responsible for rigorously discussing business issues and making appropriate and efficient management decisions. Corporate auditors supervise the Board of Directors to safeguard proper conduct of the Board and ensure that the directors are executing their duties. To maintain a management organization that is capable of responding readily to changes in the business environment, the Company sets a 1-year renewable term of office for directors. 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.

With a view to enhancing the management oversight function, all three members of the Board of Corporate Auditors at Star Micronics, including the standing auditor, are outside appointees. These corporate auditors fulfill their duties in accordance with an auditing standard the Company set forth for the Board of Corporate Auditors.

Although there are no outside appointees to the Board of Directors of Star Micronics, the three outside corporate auditors are either experts in a profession such as finance, accounting or the law, or have extensive knowledge and experience managing the business execution of other companies. These outside corporate auditors provide the external perspective on the management oversight and advisory function to a sound corporate governance system that other companies typically seek in outside board directors.

Compensation of Directors and Corporate Auditors

Members of the Board of Directors at Star Micronics are compensated in accordance with the Company's earnings performance. Their package consists of a basic compensation that is paid monthly and a yearly bonus that varies depending on how the Group performs on a consolidated basis. In view of the tasks that they are asked to perform, members of the Board of Corporate Auditors receive only the basic compensation that is paid monthly.

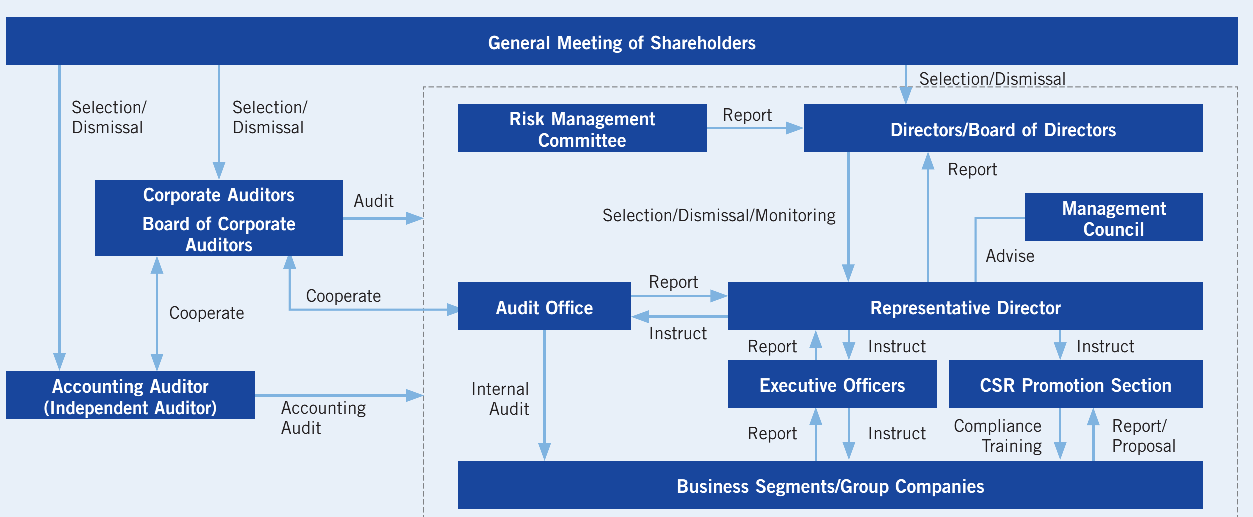
Members of the Board of Directors may also receive stock options commensurate with their rank within the Board, as an added incentive to improve the Company's business performance.

Basic compensation for directors is set within a range no higher than ¥130 million a year. Star Micronics decides how much of this amount each director receives based on their rank within the Board and the Company's business performance.

Basic compensation for corporate auditors is set within a range no higher than ¥22 million a year. Star Micronics holds discussions with each corporate auditor in deciding how much of this amount each will be paid.

The bonus Star Micronics pays directors is set within a range of no higher than ¥100 million a year. The bonus is allotted to the Board of Directors in a lump sum, which is calculated by multiplying the Company's consolidated net income by a payout ratio that the Company decides each year. A system that assigns points in accordance with rank within the Board determines the amount each director receives of this bonus allotment.

STAR MICRONICS' CORPORATE GOVERNANCE SYSTEM



Breakdown of Total Compensation, etc., by Director Rank (as Disclosed in the Securities Report)

Fiscal 2012 (March 1, 2011–February 29, 2012)

Director rank	Total compensation, etc. (¥ million)	Total compensation by category (¥ million)			Headcount of those eligible
		Basic compensation	Stock options	Bonus	
Director	187	107	8	72	8
Corporate auditors (excluding outside corporate auditors)	—	—	—	—	0
Outside corporate auditors	18	18	—	—	4

Notes: 1. There are no outside appointees to the Board of Directors of Star Micronics. By contrast, the Company's Board of Corporate Auditors is comprised entirely of outside appointees.
2. The headcount above includes one outside corporate auditor who had resigned following the Company's Ordinary General Shareholders' Meeting for the 86th Period, held on May 26, 2011. The basic compensation in the table above includes the ¥4 million Star Micronics paid as compensation for this corporate auditor during his tenure in the year ended February 28, 2011. As of February 29, 2012, the Company's Board of Corporate Auditors was comprised of three outside corporate auditors.
3. Bonuses and stock options are in amounts Star Micronics expensed in the year ended February 29, 2012.
4. The amounts disclosed above exclude ¥67 million (including bonuses) paid out as employee salaries to five directors of the Board who were concurrently serving in employee positions at Star Micronics.
5. Star Micronics is scheduled to pay ¥103 million in total to five directors of the Board upon their retirement. These payments are for severance of a retirement benefit allowance for directors that was discontinued pursuant to a resolution of the Ordinary General Shareholders' Meeting for the 82nd Period held on May 24, 2007.
6. Two of the directors above have resigned following the Ordinary General Shareholders' Meeting for the 87th period held an May 24, 2012.

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.

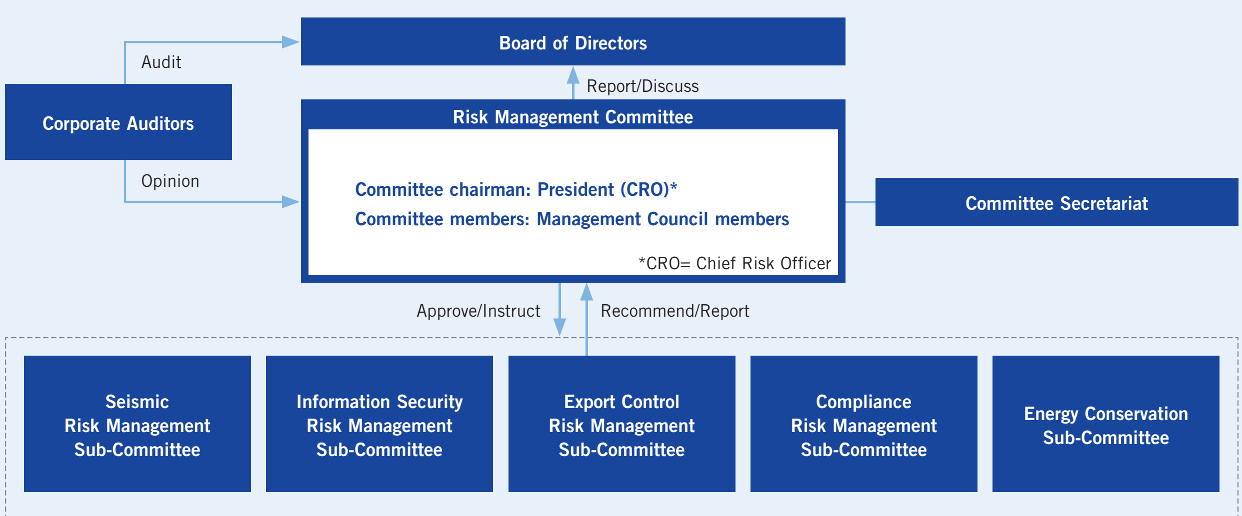
To strengthen internal control, a Star Micronics Global Charter of Corporate Conduct was issued in March 2005, setting out the Group's basic policies on compliance. Since then, a Star Micronics Code of Conduct was drawn up for employees to follow, and we have been working to establish rules and organizational structures to ensure compliance at every level of our activities. In addition, a department dedicated to promoting 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, etc., 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 Company as a whole.

STAR MICRONICS' RISK MANAGEMENT SYSTEM



Consolidated Eleven-Year Summary

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Eleven years ended the last day of February

	2012	2011	2010	2009
For the year:				
Net sales	**¥41,654**	¥35,718	¥ 29,181	¥56,953
Cost of sales	**25,753**	23,265	22,326	33,535
Selling, general and administrative expenses	**11,948**	11,024	10,840	14,873
Operating income (loss)	**3,953**	1,429	(3,985)	8,545
Other (expenses) income – net	**(724)**	(1,069)	(2,665)	(984)
Income (loss) before income taxes and minority interests	**3,229**	360	(6,650)	7,561
Income taxes	**717**	107	1,800	3,147
Minority interests in net income	**85**	92	105	76
Net income (loss)	**2,427**	161	(8,555)	4,338
Net cash provided by operating activities	**4,466**	3,520	4,769	6,152
Net cash used in investing activities	**(393)**	(1,518)	(1,194)	(1,314)
Free cash flows	**4,073**	2,002	3,575	4,838
Net cash used in financing activities	**(2,092)**	(1,813)	(3,977)	(9,077)
Per share:				
Basic net income (loss)	**¥ 56.94**	¥ 3.71	¥(187.95)	¥ 85.66
Diluted net income				85.63
Cash dividends applicable to the year	**26.00**	22.00	22.00	45.00
At year-end:				
Current assets	**¥38,302**	¥34,836	¥ 34,346	¥44,762
Net property, plant and equipment	**10,289**	10,549	11,678	15,169
Total assets	**51,925**	49,250	50,681	64,205
Long-term liabilities	**407**	423	592	459
Total equity	**36,980**	37,096	41,261	52,986
Stock exchange price per share of common stock:				
Highest	**¥958**	¥1,182	¥1,020	¥2,175
Lowest	**657**	702	595	773
Selected financial indicators:				
Equity ratio (%)	**70.2**	73.9	80.1	81.5
Return on equity (%)	**6.7**	0.4		7.3
Dividend payout ratio (%)	**45.7**	593.0		52.5
Dividend on equity (%)	**3.0**	2.5	2.2	3.8

Millions of yen (Except for per share data)

2008	2007	2006	2005	2004	2003	2002
¥73,884	¥62,670	¥54,788	¥49,690	¥43,332	¥38,612	¥43,265
42,207	37,004	32,875	30,742	28,161	25,225	27,295
17,025	15,222	13,805	12,605	11,621	10,979	11,907
14,652	10,444	8,108	6,343	3,550	2,408	4,063
(271)	410	(68)	(688)	(286)	(980)	(1,911)
14,381	10,854	8,040	5,655	3,264	1,428	2,152
6,190	3,719	2,799	1,881	828	997	1,557
111	122	89	(1)	10	(3)	18
8,080	7,013	5,152	3,775	2,426	434	577
10,666	10,711	4,594	6,891	8,024	8,085	(285)
(8,072)	(3,169)	(3,619)	(2,016)	(1,582)	(1,606)	(4,429)
2,594	7,542	975	4,875	6,442	6,479	(4,714)
(2,152)	(1,331)	(866)	(2,149)	(5,265)	(2,218)	1,219
¥150.74	¥131.09	¥ 95.60	¥ 70.13	¥ 44.12	¥ 7.77	¥ 10.21
150.47	130.73	95.38	70.09			
56.00	32.00	21.00	15.00	11.00	10.00	10.00
¥63,152	¥53,620	¥44,615	¥40,170	¥36,355	¥38,424	¥37,979
17,728	16,355	16,210	14,698	15,604	17,602	19,430
86,375	76,195	66,826	60,013	57,898	62,403	65,394
696	920	793	349	1,277	2,575	2,227
66,602	61,396	54,295	47,754	44,613	45,024	46,978
	Yen					
¥3,740	¥2,710	¥2,090	¥1,030	¥830	¥1,120	¥1,704
1,506	1,691	941	704	418	420	490
76.2	79.9	81.2	79.6	77.1	72.2	71.8
12.8	12.2	10.1	8.2	5.4	0.9	1.2
37.2	24.4	22.0	21.4	24.9	128.7	97.9
4.7	3.0	2.2	1.7	1.3	1.2	1.2

Management's Discussion and Analysis

Overview

(Years ended February 29, 2012 and February 28, 2011)

Business Environment

In fiscal 2012, the year ended February 29, 2012, the U.S. economic recovery slowed and the European economies overall also lost momentum amid growing concerns for the fiscal and financial soundness of the eurozone countries. Meanwhile, Asia generally maintained strong rates of economic growth, despite the effects of tighter monetary policies in China. In Japan, there were signs the economy was recovering from a sustained but transitional period of severity that was brought on by the Great East Japan Earthquake. The yen's foreign exchange rate, meanwhile, remained strong against major currencies.

Net Sales

(Millions of yen)

2011	**2012**	Change (%)
¥35,718	**¥41,654**	16.6

Sales increased driven by strong business performance in the Machine Tools Segment.

Operating Income

(Millions of yen)

2011	**2012**	Change (%)
¥1,429	**¥3,953**	176.6

There was also a sizeable increase in operating income as a result of sales increasing.

Net Income

(Millions of yen)

2011	**2012**	Change (%)
¥161	**¥2,427**	

Net income rose substantially, despite an increase in expenses as a consequence of loss on disposition of foreign currency translation adjustments involved in the liquidation of a subsidiary, and damages incurred in the flooding in Thailand.

Cash Dividends per Share

(Yen)

2011	**2012**	Change (yen)
¥22	**¥26**	¥4

The cash dividends in the year under review increased ¥4 from the previous year to ¥26 per share.

Total Assets

(Millions of yen)

2011	**2012**	Change (%)
¥49,250	**¥51,925**	5.4

Total assets rose year on year. This was mainly due to an increase in inventories in relation to factors such as higher sales, and an increase in cash and cash equivalents.

Free Cash Flows

(Millions of yen)

2011	**2012**	Change (%)
¥2,002	**¥4,073**	103.4

This term saw a sharp increase in free cash flows year on year. This was due to cash provided by items such as income before income taxes and minority interests and depreciation and amortization expenses, which offset cash used for increasing items such as inventories, and trade notes and accounts payable.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

(Millions of yen)

2011	**2012**	Change (%)
¥974	**¥2,040**	109.4

Capital expenditures increased, mainly due to the expansion and enhancement of manufacturing bases overseas.

Sales by Region

(Millions of yen)

	2011	**2012**	Change (%)
Europe	¥9,979	**¥14,552**	45.8
America	8,516	**10,163**	19.3
Asia	9,589	**8,454**	(11.8)
Japan	7,634	**8,485**	11.1

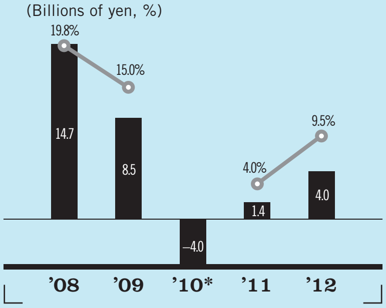
Overseas sales grew in all regions apart from Asia, with sales strong once again in Europe and firming in the Americas.

Income Analysis

▶ Profit and sales both increased, driven by strong business performance in the Machine Tools Segment.

OPERATING INCOME (LOSS) AND OPERATING INCOME RATIO

(Billions of yen, %)



■ Operating Income (Loss)
-o- Operating Income Ratio*

* The operating income ratio was not calculated for fiscal 2010 because an operating loss was incurred.

For fiscal 2012, the fiscal year under review, Star Micronics reported consolidated sales of ¥41,654 million (US$514,247 thousand), up 16.6%, or ¥5,936 million, year on year. This outcome reflected a sharp rise in revenue growth in our core Machine Tools business, mainly as a result of robust demand for capital investments in the European and North American markets. The cost of sales increased ¥2,488 million, or 10.7%, to ¥25,753 million (US$317,938 thousand). As a result of the above, gross profit increased ¥3,448 million, or 27.7%, year on year to ¥15,901 million (US$196,309 thousand). The gross profit margin increased 3.3 percentage points to 38.2%. This was due primarily to the high-margin Machine Tools Segment increasing its share of total sales by 10.0 percentage points to 64.0%, while sales held unchanged from the year before for POS printers in the Special Products Segment, and wristwatch components in the Precision Products Segment.

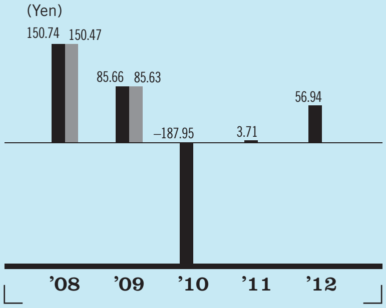
Selling, general and administrative (SG&A) expenses increased ¥924 million year on year, or 8.4%, to ¥11,948 million (US$147,507 thousand). This increase was due mainly to higher transportation and packaging costs, and an increase in direct costs, such as advertising and promotional costs, sales commissions, and other items increasing in line with rising sales.

As a result of the above, the Company saw operating income increase a sharp 176.6%, or ¥2,524 million, year on year to ¥3,953 million (US$48,802 thousand) this term.

▶ Net income increased substantially, unhampered by setbacks from foreign exchange and natural disasters.

NET INCOME (LOSS) PER SHARE

(Yen)



■ Basic Net Income (Loss)
■ Diluted Net Income

Other expenses—net narrowed to ¥724 million (US$8,938 thousand) this term compared to ¥1,069 million in the previous fiscal year. The major non-operating losses incurred in the year under review were ¥209 million (US$2,580 thousand) in foreign exchange loss—net, which declined in comparison to a net ¥456 million loss the year before; ¥439 million (US$5,420 thousand) in loss on disposition of foreign currency translation adjustments; and ¥438 million (US$5,407 thousand) in loss on disaster. The main offset was a ¥33 million, or 19.1%, increase year on year in interest and dividend income to ¥206 million (US$2,543 thousand).

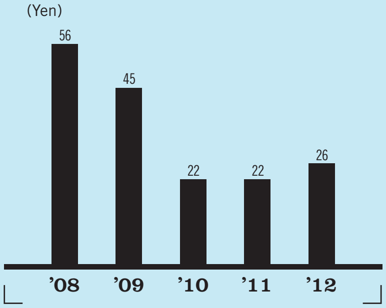
As a result, the Company saw income before income taxes and minority interests increase ¥2,869 million year on year to ¥3,229 million (US$39,864 thousand). Total income taxes were ¥717 million (US$8,852 thousand). Net income after deducting minority interests was ¥2,427 million (US$29,963 thousand).

Basic net income per share was ¥56.94 (US$0.70).

▶ Dividend increased ¥4 year on year to ¥26 per share.

CASH DIVIDENDS PER SHARE

(Yen)

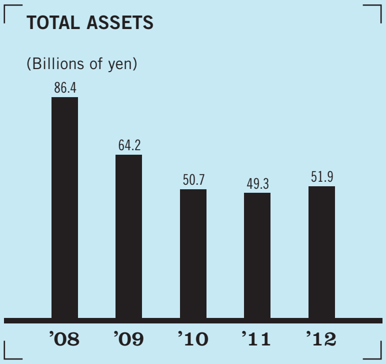


The Company increased the annual dividend ¥4 for the year under review to ¥26 (US$0.32) per share. Total dividends increased ¥148 million, or 15.4%, to ¥1,107 million (US$13,667 thousand). We plan to increase the annual dividend ¥4 in the fiscal year ending February 2013 to ¥30 per share.

Regarding future dividends, the Company is emphasizing shareholder returns and is therefore aiming for a total shareholder return ratio of at least 40%. Dividend on equity (DOE) will also be considered in setting future dividends. Planned use for internal reserves will include investment in future growth areas to achieve sustainable growth, with the goal of raising both corporate values and shareholder profits.

Financial Position and Liquidity

▶ **Total assets increased mainly due to an increase in inventories in line with higher sales and an accrual in cash and cash equivalents.**



Total current assets as of February 29, 2012 were ¥38,302 million (US$472,864 thousand), an increase of ¥3,466 million, or 9.9%, compared with the previous fiscal year-end. This increase chiefly reflected an increase in cash and cash equivalents of ¥1,519 million, or 11.5%, to ¥14,736 million (US$181,926 thousand), as well as an increase in inventories of ¥1,857 million, or 19.5%, to ¥11,379 million (US$140,481 thousand) as production levels rose.

Net property, plant and equipment decreased ¥260 million, or 2.5%, to ¥10,289 million (US$127,025 thousand). This downward trend, continuing from the previous fiscal year-end, was due to a decline in machinery and equipment of ¥658 million, or 2.8%, to ¥22,451 million (US$277,173 thousand). Total investments and other assets decreased ¥531 million, or 13.7%, to ¥3,334 million (US$41,160 thousand). This was due to a decrease of ¥265 million, or 11.7%, in investment securities to ¥2,009 million (US$24,803 thousand) and ¥215 million, or 41.6%, in deferred tax assets to ¥302 million (US$3,728 thousand).

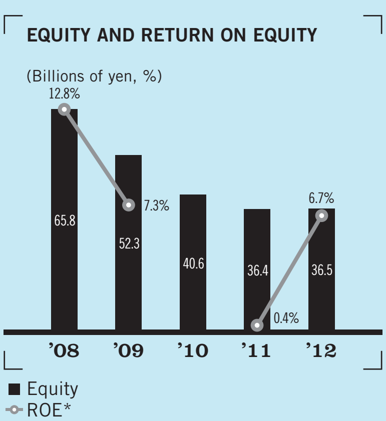
As result of the above, total assets increased ¥2,675 million, or 5.4%, year on year to ¥51,925 million (US$641,049 thousand).

▶ **Total liabilities rose, mainly due to an increase in trade notes and accounts payable.**

On the other side of the balance sheet, current liabilities increased ¥2,807 million, or 23.9%, to ¥14,538 million (US$179,481 thousand). This increase mainly reflected an increase in trade notes and accounts payable of ¥1,691 million, or 28.9%, to ¥7,552 million (US$93,235 thousand) as a result of higher sales, offset by a decrease in deferred tax liabilities of ¥261 million, or 49.7%, to ¥264 million (US$3,259 thousand).

Total long-term liabilities decreased ¥16 million, or 3.8%, to ¥407 million (US$5,025 thousand).

▶ **In equity, retained earnings fell due to the acquisition of treasury stock and the payment of dividends, despite an increase in net income in the year under review.**

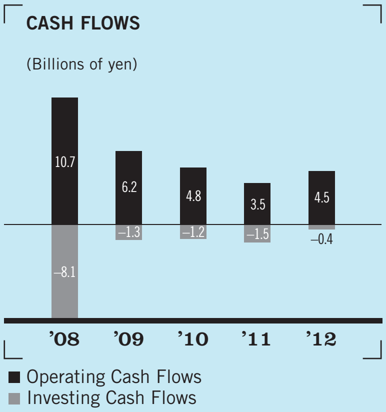


* ROE was not calculated for fiscal 2010 because a net loss was incurred.

Equity increased ¥76 million, or 0.2%, to ¥36,488 million (US$450,469 thousand) in contrast to the Company posting net income of ¥2,427 million. This was largely the result of a decline in retained earnings of ¥2,521 million, or 9.8% year on year, to ¥23,258 million (US$287,135 thousand) after paying dividends of ¥1,034 million (US$12,766 thousand) and other outlays, as well as a decline in foreign currency translation adjustments of ¥545 million, or 6.7%, to ¥8,692 million (US$107,309 thousand). Total equity including minority interests was ¥36,980 million (US$456,543 thousand). The equity ratio fell 3.7 percentage points to 70.2%, while equity per share increased ¥21.63 to ¥866.94 (US$10.70).

Cash Flows

▶ **Net cash provided by operating activities increased due largely to income before income taxes and minority interests, and depreciation and amortization expenses.**



Net cash provided by operating activities increased ¥946 million to ¥4,466 million (US$55,136 thousand). This was largely attributable to income before income taxes and minority interests of ¥3,229 million (US$39,864 thousand), reflecting a substantial recovery in operating results, and an adjustment for ¥1,607 million (US$19,840 thousand) in depreciation and amortization. On the other hand, net cash used for increases in trade receivables, inventories and trade payables was ¥1,424 million (US$17,581 thousand), due mainly to a sizeable increase in inventories.

Net cash used in investing activities was ¥393 million (US$4,852 thousand), a decrease of ¥1,125 million year on year. This chiefly reflected ¥1,267 million (US$15,642 thousand) in net cash used in the purchases of property, plant and equipment, which was partly offset by ¥498 million (US$6,148 thousand) in cash provided by proceeds from sales of investment securities.

Net cash used in financing activities was ¥2,092 million (US$25,827 thousand), an increase of ¥279 million from the previous fiscal year. This was mainly the result of ¥1,040 million (US$12,840 thousand) in dividends paid to shareholders, along with ¥760 million (US$9,382 thousand) in payments for purchase of treasury stock.

As a result of the above, after foreign currency translation adjustments on cash and cash equivalents of ¥462 million, cash and cash equivalents as of February 29, 2012 totaled ¥14,736 million (US$181,926 thousand), a net increase of ¥1,519 million from February 28, 2011.

Capital Expenditures and R&D Expenses

▶ **Capital expenditures increased year on year, apart from for the Components Segment.**

Capital expenditures in fiscal 2012 rose ¥1,066 million, or 109.4%, year on year to ¥2,040 million (US$25,185 thousand). In fiscal 2013, the Company is forecasting capital expenditures of ¥5,150 million.

Special Products

Expenditures in the Special Products Segment rose ¥159 million year on year to ¥215 million (US$2,654 thousand). In fiscal 2013, the Company is budgeting expenditures in this segment in the amount of ¥280 million, mainly for dyes used in manufacturing new models.

Components

Expenditures in the Components Segment fell ¥38 million year on year to ¥51 million (US$630 thousand).

Machine Tools

Expenditures in the Machine Tools Segment increased ¥289 million from the previous fiscal year to ¥754 million (US$9,309 thousand). In fiscal 2013, we anticipate that ¥2,915 million will be spent on investments such as the construction of a new production plant in Thailand.

Precision Products

Expenditures in the Precision Products Segment rose ¥545 million year on year to ¥735 million (US$9,074 thousand). In fiscal 2013, we expect to spend ¥1,721 million mainly on bolstering the capacity of production sites overseas.

▶ **R&D expenses in fiscal 2012 were little changed from the previous year.**

The research and development (R&D) framework for the whole Group comprises the Research and Development Department, which cultivates new businesses and works to comprehensively raise the technology level of all Group companies, and the development departments in each business in charge of the product and technology development directly linked to current products.

R&D expenses in fiscal 2012 were ¥1,807 million (US$22,309 thousand), an increase of ¥52 million, or 3.0%, from the previous year. This represented 4.3% of total sales, a decrease of 0.6 of a percentage point year on year.

Research and Development Department

The Research and Development Department took part in initiatives cultivating commercially viable businesses in new fields and providing technical support to all of the Company's segments.

In terms of cultivating new businesses, this department developed and unveiled a prototype exciter utilizing the Company's many years of expertise in miniature acoustics technologies, while initiating various other projects and collaborating with companies outside the Group. An exciter is a device that produces sound by utilizing the surfaces it contacts as a diaphragm. Simply attaching an exciter will convert a conference room table or white board, for example, into an audio speaker. The device can also be applied to an automobile dashboard or bumper to emit tones as a guide or warning signal. Going forward, the department will strive to develop the mass production of emitters, along with the commercialization of other R&D themes.

The Research and Development Department continues to provide other segments within the Company with technical support in the three areas of physico-chemical analysis, sophisticated computer aided engineering (CAE) and quality engineering. Along with the technical support it has provided the business segments in introducing and maintaining value engineering (VE) activities, the department has worked to raise the technology level of the whole Company. The department is also responsible for supporting the testing and evaluation of products for quality assurance, as well as intellectual property-related operations with an eye to strengthening competitive power of the entire Company.

Special Products

Product development in this segment is aimed at developing highly competitive products that meet customers' needs. The basis for this activity is development and design of products that contribute to lowering environmental impact while retaining high quality and reliability

In fiscal 2012, the Company strengthened the development of new POS printers and utility software for responding to the various local market needs globally. These included the *TSP-L* series of printers for markets in Europe and the Americas, and suitable for application in lottery and ticket vending machines, as well as a multi-function POS thermal printer equipped with a barcode ID scanner, IC card reader, magnetic reader and other functions for targeting kiosks and convenience stores in the North American market.

We also developed the *SM-S220* mobile printer, which we upgraded in compatibility with smartphones and tablets, for a major settlement system vendor in Japan.

In software development, we developed a software development kit for our Star I/O utility software, designed to improve the affinity of our existing product line of small printers with the latest operating software found in mobile terminals and devices. The kit was then provided to system integrators as an easy-to-use systems solution for establishing connectivity between smartphones and our printers.

Machine Tools

The Machine Tools Segment worked on development initiatives for expanding and improving the product line of Swiss-type automatic lathes. The new model we launched was the *SW-20* lathe for the high-speed machining of complicated parts, while the models we renewed were the *SR-20J type C*, *SR-20J type N*, *SR-32J* and *SR-32J type N* low-cost lathes for complex machining.

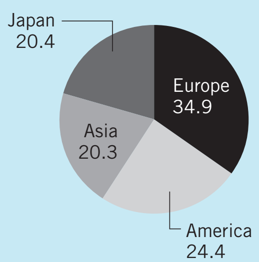
Development of machine tool software centered mainly on ongoing improvements in operability, functionality and safety features, always with a firm eye on market needs.

Moreover, as part of its environmental initiative, the Machine Tools Segment is working to improve the ratio of components it consumes that are RoHS compliant and to proactively promote the powder coating of sheet-metal parts. The segment has established its own Star Environmental Standards, and labels the automatic lathes satisfying these standards with an ECO mark for designation as Star Environmental Standards Conformity Models.

Sales Framework and Net Sales by Region

NET SALES BY REGION

(%)



A significant proportion of Star Micronics' products are sold in international markets. To provide customer support on a global scale, the Company operates an extensive network of overseas sites. (See table)

	U.K.	Germany	France	Switzerland
Special Products	Star Micronics Europe Ltd.			
Machine Tools	Star Micronics GB Ltd.	Star Micronics GmbH	Star Machine Tool France SAS	Star Micronics AG

	U.S.	Thailand	China
Special Products	Star Micronics America, Inc.	Star Micronics Southeast Asia Co., Ltd.	
Machine Tools	Star CNC Machine Tool Corporation	Star Micronics (Thailand) Co., Ltd.	Shanghai Xingang Machinery Co., Ltd.

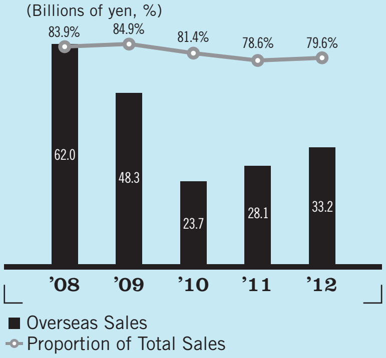
* Star Micronics America, Inc. markets components in addition to special products.

* In September 2011, the Special Products Segment established a new subsidiary named Star Micronics Southeast Asia Co., Ltd. in Bangkok, Thailand, as an independent sales base for covering regional sales activities in Southeast Asia. This sales base was split off from Star Micronics (Thailand) Co., Ltd., a local subsidiary of the Machine Tools Segment, where the Special Products Segment had housed its regional sales operations since September 2010.

▶ **Overseas sales as a share of total sales up 1.0 percentage point to 79.6% on increased sales in Europe and the Americas.**

OVERSEAS SALES AND PROPORTION OF TOTAL SALES

(Billions of yen, %)



In the fiscal year under review, overseas sales as a proportion of total sales increased 1.0 percentage point to 79.6%.

By region, in Europe, net sales increased ¥4,573 million to ¥14,552 million (US$179,654 thousand), representing 34.9% of total sales, a 7.0 percentage points increase from the previous fiscal year.

In the Americas, net sales increased ¥1,647 million to ¥10,163 million (US$125,469 thousand), representing 24.4% of total sales, up by 0.6 of a percentage point.

Net sales in Asia decreased ¥1,135 million to ¥8,454 million (US$104,370 thousand). Asia's share of total sales decreased 6.6 percentage points to 20.3%.

In Japan, net sales increased ¥851 million to ¥8,485 million (US$104,753 thousand), representing 20.4% of total sales, down by 1.0 percentage point.

Consolidated Balance Sheets

Star Micronics Co., Ltd. and Consolidated Subsidiaries
February 29, 2012 and February 28, 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2012**	2011	**2012**
Current assets:			
Cash and cash equivalents (Note 14)	**¥ 14,736**	¥ 13,217	**$ 181,926**
Marketable securities (Notes 3 and 14)	**413**	406	**5,099**
Short-term investments (Notes 4 and 14)	**905**	1,578	**11,173**
Receivables (Note 14):			
Trade notes and accounts receivable	**9,402**	8,904	**116,074**
Unconsolidated subsidiaries and associated companies	**447**	385	**5,518**
Other	**715**	575	**8,827**
Allowance for doubtful receivables	**(99)**	(219)	**(1,222)**
Inventories (Notes 5 and 12)	**11,379**	9,522	**140,481**
Deferred tax assets (Note 10)	**179**	150	**2,210**
Prepaid expenses and other	**225**	318	**2,778**
Total current assets	**38,302**	34,836	**472,864**
Property, plant and equipment (Note 12):			
Land	**2,614**	2,450	**32,272**
Buildings and structures	**12,768**	12,754	**157,630**
Machinery and equipment	**22,451**	23,109	**277,173**
Lease assets	**84**	72	**1,037**
Construction in progress	**45**	1	**555**
Total	**37,962**	38,386	**468,667**
Accumulated depreciation	**(27,673)**	(27,837)	**(341,642)**
Net property, plant and equipment	**10,289**	10,549	**127,025**
Investments and other assets:			
Investment securities (Notes 3 and 14)	**2,009**	2,274	**24,803**
Investments in unconsolidated subsidiaries and associated companies	**137**	137	**1,691**
Deferred tax assets (Note 10)	**302**	517	**3,728**
Other assets	**886**	937	**10,938**
Total investments and other assets	**3,334**	3,865	**41,160**
Total	**¥ 51,925**	¥ 49,250	**$ 641,049**

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen 2012	2011	Thousands of U.S. dollars (Note 1) 2012
Current liabilities:			
Payables (Note 14):			
Trade notes and accounts payable	**¥ 7,552**	¥ 5,861	**$ 93,235**
Unconsolidated subsidiaries and associated companies	**2**	3	**25**
Other	**1,242**	1,193	**15,333**
Short-term bank loans (Notes 6 and 14)	**2,000**	2,000	**24,691**
Current portion of long-term debt (Note 6)	**18**	16	**222**
Income taxes payable (Note 10)	**422**	206	**5,210**
Accrued expenses	**775**	569	**9,568**
Deferred tax liabilities (Note 10)	**264**	525	**3,259**
Other	**2,263**	1,358	**27,938**
Total current liabilities	**14,538**	11,731	**179,481**
Long-term liabilities:			
Long-term debt (Note 6)	**39**	48	**482**
Liability for retirement benefits (Note 7)	**33**	46	**408**
Deferred tax liabilities (Note 10)	**156**	199	**1,926**
Other	**179**	130	**2,209**
Total long-term liabilities	**407**	423	**5,025**
Contingent liabilities (Note 13)			
Equity (Notes 8, 9 and 19):			
Common stock, – authorized, 158,000,000 shares;			
issued, 47,033,234 shares in 2012			
issued, 51,033,234 shares in 2011	**12,722**	12,722	**157,062**
Capital surplus	**13,876**	13,876	**171,309**
Stock acquisition rights (Note 9)	**11**		**136**
Retained earnings	**23,258**	25,779	**287,135**
Treasury stock – at cost			
4,957,248 shares in 2012 and 7,956,911 shares in 2011	**(4,710)**	(7,864)	**(58,148)**
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	**23**	46	**284**
Foreign currency translation adjustments	**(8,692)**	(8,147)	**(107,309)**
Total	**36,488**	36,412	**450,469**
Minority interests	**492**	684	**6,074**
Total equity	**36,980**	37,096	**456,543**
Total	**¥51,925**	¥49,250	**$641,049**

See notes to consolidated financial statements.

Consolidated Statements of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 29, 2012 and February 28, 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Net sales	**¥41,654**	¥35,718	**$514,247**
Cost of sales (Note 7)	**25,753**	23,265	**317,938**
Gross profit	**15,901**	12,453	**196,309**
Selling, general and administrative expenses (Notes 7 and 11)	**11,948**	11,024	**147,507**
Operating income	**3,953**	1,429	**48,802**
Other income (expenses):			
Interest and dividend income	**206**	173	**2,543**
Interest expense	**(12)**	(15)	**(148)**
Foreign exchange loss – net	**(209)**	(456)	**(2,580)**
Gain on sales of property, plant and equipment	**169**	135	**2,086**
Loss on disposals of property, plant and equipment	**(45)**	(35)	**(555)**
Loss on disposition of foreign currency translation adjustments	**(439)**		**(5,420)**
Loss on disaster (Note 12)	**(438)**		**(5,407)**
Special severance payments for early retired employees	**(34)**	(957)	**(420)**
Other – net	**78**	86	**963**
Other expenses – net	**(724)**	(1,069)	**(8,938)**
Income before income taxes and minority interests	**3,229**	360	**39,864**
Income taxes (Note 10):			
Current	**883**	739	**10,901**
Deferred	**(166)**	(632)	**(2,049)**
Total	**717**	107	**8,852**
Net income before minority interests	**2,512**	253	**31,012**
Minority interests in net income	**85**	92	**1,049**
Net income	**¥ 2,427**	¥ 161	**$ 29,963**

	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 2.r, 8 and 17):			
Basic net income	**¥56.94**	¥ 3.71	**$0.70**
Diluted net income			
Cash dividends applicable to the year	**26.00**	22.00	**0.32**

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year ended February 29, 2012

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2012	**2012**
Net income before minority interests (Note 16)	**¥2,512**	**$31,012**
Other comprehensive income		
Unrealized loss on available-for-sale securities	**(23)**	**(284)**
Foreign currency translation adjustments	**(547)**	**(6,753)**
Total other comprehensive loss	**(570)**	**(7,037)**
Comprehensive income (Note 16)	**¥1,942**	**$23,975**
Total comprehensive income attributable to: (Note 16)		
Owners of the parent	**¥1,858**	**$22,938**
Minority interests	**84**	**1,037**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 29, 2012 and February 28, 2011

	Thousands	Millions of yen									
							Accumulated other comprehensive income				
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock–at cost	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Total	Minority interests	Total equity
Balance, February 28, 2010	44,067	¥12,722	¥13,876		¥26,587	¥(7,036)	¥ 62	¥(5,601)	¥40,610	¥ 651	¥41,261
Net income					161				161		161
Cash dividends, ¥22.0 per share					(969)				(969)		(969)
Net decrease in unrealized gain on available-for-sale securities							(16)		(16)		(16)
Net decrease in foreign currency translation adjustments								(2,546)	(2,546)		(2,546)
Purchase of treasury stock	(1,002)					(839)			(839)		(839)
Disposal of treasury stock	11					11			11		11
Net change in the year										33	33
Balance, February 28, 2011	43,076	¥12,722	¥13,876		¥25,779	¥(7,864)	¥ 46	¥(8,147)	¥36,412	¥ 684	¥37,096
Net income					**2,427**				**2,427**		**2,427**
Cash dividends, ¥26.0 per share					**(1,034)**				**(1,034)**		**(1,034)**
Net decrease in unrealized gain on available-for-sale securities							**(23)**		**(23)**		**(23)**
Net decrease in foreign currency translation adjustments								**(545)**	**(545)**		**(545)**
Purchase of treasury stock	**(1,000)**					**(760)**			**(760)**		**(760)**
Retirement of treasury stock					**(3,914)**	**3,914**					
Net change in the year				**¥11**					**11**	**(192)**	**(181)**
Balance, February 29, 2012	**42,076**	**¥12,722**	**¥13,876**	**¥11**	**¥23,258**	**¥(4,710)**	**¥ 23**	**¥(8,692)**	**¥36,488**	**¥ 492**	**¥36,980**

	Thousands of U.S. dollars (Note 1)									
						Accumulated other comprehensive income				
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock–at cost	Unrealized gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Total	Minority interests	Total equity
Balance, February 28, 2011	$157,062	$171,309		$318,259	$(97,087)	$ 568	$(100,580)	$449,531	$8,444	$457,975
Net income				**29,963**				**29,963**		**29,963**
Cash dividends, $0.32 per share				**(12,766)**				**(12,766)**		**(12,766)**
Net decrease in unrealized gain on available-for-sale securities						**(284)**		**(284)**		**(284)**
Net decrease in foreign currency translation adjustments							**(6,729)**	**(6,729)**		**(6,729)**
Purchase of treasury stock					**(9,382)**			**(9,382)**		**(9,382)**
Retirement of treasury stock				**(48,321)**	**48,321**					
Net change in the year			**$136**					**136**	**(2,370)**	**(2,234)**
Balance, February 29, 2012	**$157,062**	**$171,309**	**$136**	**$287,135**	**$(58,148)**	**$ 284**	**$(107,309)**	**$450,469**	**$6,074**	**$456,543**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 29, 2012 and February 28, 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Operating activities:			
Income before income taxes and minority interests	**¥ 3,229**	¥ 360	**$ 39,864**
Adjustments for:			
Income taxes – paid	**(583)**	(853)	**(7,197)**
Depreciation and amortization	**1,607**	1,762	**19,840**
Loss on disposition of foreign currency translation adjustments	**439**		**5,420**
Loss on disaster	**438**		**5,407**
Reversal of doubtful receivables	**(121)**	(218)	**(1,494)**
Provision for retirement benefits	**5**	3	**62**
Gain on sales and disposals of property, plant and equipment	**(124)**	(100)	**(1,531)**
Changes in assets and liabilities:			
Increase in trade receivables	**(962)**	(990)	**(11,877)**
Increase in inventories	**(2,282)**	(1,213)	**(28,173)**
Increase in trade payables	**1,820**	3,798	**22,469**
Other – net	**1,000**	971	**12,346**
Total adjustments	**1,237**	3,160	**15,272**
Net cash provided by operating activities	**4,466**	3,520	**55,136**
Investing activities:			
Purchases of property, plant and equipment	**(1,267)**	(981)	**(15,642)**
Proceeds from sales of property, plant and equipment	**208**	156	**2,568**
Purchases of marketable securities	**(100)**		**(1,235)**
Purchases of investment securities	**(205)**	(5)	**(2,531)**
Proceeds from sales of investment securities	**498**	12	**6,148**
Other – net	**473**	(700)	**5,840**
Net cash used in investing activities	**(393)**	(1,518)	**(4,852)**
Financing activities:			
Dividends paid to shareholders	**(1,040)**	(975)	**(12,840)**
Dividends paid to minority shareholders of consolidated subsidiaries	**(276)**		**(3,407)**
Proceeds from stock issuance to minority shareholders		3	
Payments for purchase of treasury stock	**(760)**	(839)	**(9,382)**
Disposal of treasury stock		11	
Other – net	**(16)**	(13)	**(198)**
Net cash used in financing activities	**(2,092)**	(1,813)	**(25,827)**
Foreign currency translation adjustments on cash and cash equivalents	**(462)**	(1,345)	**(5,704)**
Net increase (decrease) of cash and cash equivalents	**1,519**	(1,156)	**18,753**
Cash and cash equivalents at beginning of year	**13,217**	14,373	**163,173**
Cash and cash equivalents at end of year	**¥14,736**	¥13,217	**$181,926**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 29, 2012 and February 28, 2011

1. Basis of Presenting 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 conformity 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.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended February 29, 2012 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended February 28, 2011 is disclosed in Note 16. In addition, "net income before minority interests" is disclosed in the consolidated statement of income from the year ended February 29, 2012.

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 2011 consolidated financial statements to conform to the classifications used in 2012.

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 ¥81 to $1, the approximate rate of exchange at February 29, 2012. 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 February 29, 2012 include the accounts of the Company and its 19 significant (18 in 2011) subsidiaries (together, the "Group").

Under the control or influence concept, 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.

Investments in the unconsolidated subsidiaries and 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.

The fiscal periods of consolidated subsidiaries in Japan end at the end of February, and those of consolidated subsidiaries outside of Japan end on December 31. In preparing the consolidated financial statements, financial statements as of December 31 are used as to foreign consolidated subsidiaries. However, necessary adjustments are made in the consolidation process concerning significant transactions that occurred for the period from January 1 to the end of February.

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 eliminated.

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

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes: (1) 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, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of fair value model accounting for property, plant, and equipment and investment properties and incorporation of cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

c. 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 deposits 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.

d. Inventories

Inventories are stated at the lower of the 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 Japan) or the net selling value.

e. 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.

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

f. 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 47 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.

g. 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.

h. Retirement and Pension Plans

The Company has a non-contributory funded pension plan covering substantially all of its employees. To provide for the payment of retirement benefits and pension plan payment 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 fiscal year-end.

Actuarial gain and loss is amortized in the years following the year in which the gain or loss is recognized by the straight-line method within a specific period (13 years), which falls within the average remaining years of service of the eligible employees. Unrecognized prior service cost is amortized in the years in which the gain or loss is recognized by the straight-line method within a specific period (13 years), which falls within the average remaining years of service of the eligible employees. Domestic consolidated subsidiaries have lump-sum retirement benefit plans, and certain foreign consolidated subsidiaries have lump-sum retirement benefit plans or defined contribution pension plans.

The Company revised the discount rate from 2.0% to 1.3% for the year ended February 29, 2012, because variation in the discount rate associated with lower market interest rates had a certain influence on the amount of projected benefit obligation.

i. Asset Retirement Obligations

In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18 “Accounting Standard for Asset Retirement Obligations” and ASBJ Guidance No. 21 “Guidance on Accounting Standard for Asset Retirement Obligations.” Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the 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 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 increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective March 1, 2011. The effect of this change was to decrease operating income by ¥2 million ($25 thousand) and income before income taxes and minority interests by ¥26 million ($321 thousand).

j. Stock Options

The ASBJ Statement No. 8, “Accounting Standard for Stock Options” and related guidance are applicable to stock options granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

The Company has applied the accounting standard for stock options to those granted on and after May 1, 2006.

k. Bonuses to Directors and Corporate Auditors

Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

l. Leases

In March 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the lessee’s financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Group applied the revised accounting standard effective March 1, 2009. In addition, the Group accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

m. Research and Development Costs

Research and development costs are charged to income as incurred.

n. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements 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 tax laws to the temporary differences.

o. 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.

p. 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 were 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.

q. Derivatives

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. 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 statements 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 statements of income.

r. Per Share Information

Basic net income per share is computed by dividing net income available 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 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. Diluted net income per share is not disclosed because there are no securities with dilutive effect upon exercise or conversion into common stock for the year ended February 29, 2012.

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

s. New Accounting Pronouncements

Accounting Changes and Error Corrections

In December 2009, 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 with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentations

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.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

3. Marketable and Investment Securities

Marketable and investment securities at February 29, 2012 and February 28, 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Current:			
Corporate and other bonds	**¥ 413**	¥ 406	**$ 5,099**
Total	**¥ 413**	¥ 406	**$ 5,099**
Non-current:			
Equity securities	**¥1,540**	¥1,553	**$19,012**
Corporate and other bonds	**433**	682	**5,346**
Trust fund investment and other	**36**	39	**445**
Total	**¥2,009**	¥2,274	**$24,803**

The costs and aggregate fair values of securities classified as available-for-sale at February 29, 2012 and February 28, 2011 were as follows:

	Millions of yen			
2012	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**¥1,404**	**¥194**	**¥185**	**¥1,413**
Corporate and other bonds	**836**	**10**		**846**
Trust fund investments and other	**29**	**7**		**36**

	Millions of yen			
2011	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	¥1,399	¥236	¥210	¥1,425
Corporate and other bonds	1,065	23	1	1,087
Trust fund investments and other	29	10		39

	Thousand of U.S. dollars (Note 1)			
2012	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**$17,333**	**$2,395**	**$2,284**	**$17,444**
Corporate and other bonds	**10,321**	**123**		**10,444**
Trust fund investments and other	**358**	**86**		**444**

Proceeds from sales of available-for-sale securities for the year ended February 29, 2012 was ¥581 million ($7,173 thousand). Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended February 29, 2012 were ¥15 million ($185 thousand) and ¥17 million ($210 thousand), respectively.

4. Short-term Investments

Short-term investments at February 29, 2012 and February 28, 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Deposits over three-month period	**¥905**	¥1,578	**$11,173**
Total	**¥905**	¥1,578	**$11,173**

5. Inventories

Inventories at February 29, 2012 and February 28, 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Merchandise	**¥ 345**	¥ 281	**$ 4,259**
Finished products	**6,693**	5,382	**82,630**
Work in process	**2,459**	2,066	**30,358**
Raw materials and supplies	**1,882**	1,793	**23,234**
Total	**¥11,379**	¥9,522	**$140,481**

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

Short-term bank loans at February 29, 2012 and February 28, 2011 consisted of bank overdrafts. The annual interest rates applicable for the years ended February 29, 2012 and February 28, 2011 were 0.34% and 0.39%, respectively.

Long-term debt at February 29, 2012 and February 28, 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Lease obligations	**¥57**	¥64	**$704**
Less: current portion	**18**	16	**222**
Long-term debt, less current portion	**¥39**	¥48	**$482**

Annual maturities of long-term debt at February 29, 2012 were as follows:

Years ending February 28 or 29	Millions of yen	Thousands of U.S. dollars (Note 1)
2013	**¥18**	**$222**
2014	**18**	**222**
2015	**15**	**185**
2016	**5**	**62**
2017	**1**	**13**
Total	**¥57**	**$704**

7. Retirement and Pension Plans

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

The liability for employees' retirement benefits at February 29, 2012 and February 28, 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Projected benefit obligation	**¥(8,227)**	¥(7,382)	**$(101,568)**
Fair value of plan assets	**6,545**	6,866	**80,802**
Unrecognized actuarial loss	**2,098**	1,022	**25,901**
Unrecognized prior service cost	**(140)**	(162)	**(1,728)**
Net amount recognized	**¥ 276**	¥ 344	**$ 3,407**
Amounts recognized in the balance sheets consist of:			
Prepaid pension expense	**¥ 309**	¥ 390	**$ 3,815**
Liability for retirement benefits	**(33)**	(46)	**(408)**
Net amount recognized	**¥ 276**	¥ 344	**$ 3,407**

The components of net periodic benefit costs for the years ended February 29, 2012 and February 28, 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Service cost	**¥ 324**	¥ 348	**$ 4,000**
Interest cost	**147**	149	**1,815**
Expected return on plan assets	**(172)**	(169)	**(2,124)**
Recognized net actuarial loss	**153**	168	**1,889**
Amortization of prior service cost	**(23)**	(23)	**(284)**
Net periodic benefit costs	**¥ 429**	¥ 473	**$ 5,296**

Assumptions used for the years ended February 29, 2012 and February 28, 2011 were set forth as follows:

	2012	2011
Discount rate	**1.3%**	2%
Expected rate of return on plan assets	**2.5%**	2.5%
Recognition period of actuarial gain/loss	**13 years**	13 years
Amortization period of prior service cost	**13 years**	13 years

8. 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, if companies meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation. The Board of Directors of such company 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. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash 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 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.

9. Stock Options

The stock options outstanding during the years ended February 28, 2011 and February 29, 2012 were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2005 Stock Option	8 directors 15 employees 16 directors of subsidiaries	140,000 shares	June 20, 2005	¥1,142	From May 27, 2007 to May 26, 2011
2011 Stock Option	8 directors 13 employees	126,000 shares	July 4, 2011	¥935	From July 1, 2013 to June 30, 2017

The stock option activity was as follows:

	Shares	
	2005 Stock Option	2011 Stock Option
For the year ended February 28, 2011		
Non-vested		
February 28, 2010 – Outstanding		
Granted		
Canceled		
Vested		
February 28, 2011 – Outstanding		
Vested		
February 28, 2010 – Outstanding	76,000	
Vested		
Exercised		
Canceled		
February 28, 2011 – Outstanding	76,000	
For the year ended February 29, 2012		
Non-vested		
February 28, 2011 – Outstanding		
Granted		**126,000**
Canceled		
Vested		
February 29, 2012 – Outstanding		**126,000**
Vested		
February 28, 2011 – Outstanding	76,000	
Vested		
Exercised		
Canceled	**76,000**	
February 29, 2012 – Outstanding		
Exercise price	¥ 1,142	¥ 935
Average stock price at exercise		
Fair value price at grant date		¥ 254

The assumptions used to measure fair value of 2011 Stock Options which were granted on July 4, 2011.

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	46.05%
Estimated remaining outstanding period:	four years
Estimated dividend:	¥22.00 per share
Risk free interest rate:	0.337%

10. 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 40% for the years ended February 29, 2012 and February 28, 2011, respectively.

Consolidated subsidiaries outside of Japan are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at February 29, 2012 and February 28, 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Current:			
Deferred tax assets			
Tax loss carryforwards	**¥ 456**	¥ 407	**$ 5,630**
Accrued bonuses	**262**	225	**3,235**
Inventories	**221**	191	**2,728**
Unrealized profit on inventories	**33**	20	**407**
Allowance for doubtful receivables	**28**	23	**346**
Other – net	**94**	95	**1,161**
Less valuation allowance	**(471)**	(408)	**(5,815)**
Total	**¥ 623**	¥ 553	**$ 7,692**
Deferred tax liabilities			
Undistributed earnings of associated companies	**¥ 632**	¥ 844	**$ 7,802**
Tax-deductible inventory losses	**39**	46	**482**
Other – net	**37**	38	**457**
Total	**¥ 708**	¥ 928	**$ 8,741**
Net deferred tax liabilities	**¥ (85)**	¥ (375)	**$ (1,049)**
Non-Current:			
Deferred tax assets			
Tax loss carry forwards	**¥ 1,915**	¥ 2,505	**$ 23,642**
Impairment loss	**314**	460	**3,876**
Depreciation	**222**	234	**2,741**
Write-down of investment securities	**211**	241	**2,605**
Other – net	**217**	251	**2,679**
Less valuation allowance	**(2,569)**	(3,167)	**(31,716)**
Total	**¥ 310**	¥ 524	**$ 3,827**
Deferred tax liabilities			
Prepaid pension expense	**¥ 120**	¥ 155	**$ 1,482**
Property, plant and equipment	**21**	25	**259**
Other – net	**23**	26	**284**
Total	**¥ 164**	¥ 206	**$ 2,025**
Net deferred tax assets	**¥ 146**	¥ 318	**$ 1,802**

A reconciliation between the normal effective statutory tax rate for the years ended February 29, 2012 and February 28, 2011 and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2012	2011
Normal effective statutory tax rate	**39.8%**	39.8%
Valuation allowance	**(11.6)**	61.4
Effect of foreign tax rate differences	**(9.1)**	(73.1)
Undistributed earnings of associated companies	**(5.9)**	(34.9)
Loss on disposition of foreign currency translation adjustments	**5.4**	
Unrealized profit on inventories	**2.7**	36.6
Other – net	**0.9**	(0.1)
Actual effective tax rate	**22.2%**	29.7%

In December 2011, the Japanese government announced tax reform laws, which were to reduce corporate tax rates and introduce a surtax for economic revival effective for the years beginning on and after April 1, 2012. As a result of such changes, effective tax rates used for the calculation of deferred tax assets and liabilities changed from approximately 39.8% to 37.2% for temporary differences expected to be reversed during fiscal years beginning on March 1, 2013, 2014 and 2015, and to 34.8% for the ones expected to be reversed after March 1, 2016.

There was an insignificant impact as a result of this change.

11. Research and Development Costs

Research and development costs charged to income were ¥1,807 million ($22,309 thousand) and ¥1,755 million for the years ended February 29, 2012 and February 28, 2011, respectively.

12. Loss on Disaster

For the year ended February 29, 2012, as a result of the significant damage from floods occurred in Thailand in October 2011, the Group recognized a loss of ¥438 million ($5,407 thousand) for disposal of damaged assets, such as production facilities and inventories.

These assets were covered by insurance, but the Group did not record insurance income because the amount of insurance recovery was not fixed at the end of the year.

13. Leases

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

Lease payments under financial leases were ¥24 million ($296 thousand) and ¥30 million for the years ended February 29, 2012 and February 28, 2011, respectively.

ASBJ Statement No. 13, “Accounting Standard for Lease Transactions” requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. However, the ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before February 28, 2009 to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the financial statements. The Company applied ASBJ Statement No. 13 effective March 1, 2009 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before February 28, 2009 such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an “as if capitalized” basis was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Acquisition cost	**¥95**	¥112	**$1,173**
Accumulated depreciation	**77**	71	**951**
Net leased property	**¥18**	¥ 41	**$ 222**

The pro forma depreciation expense computed by the straight-line method was ¥24 million ($296 thousand) and ¥30 million for the years ended February 29, 2012 and February 28, 2011, respectively.

Obligations under financial leases at February 29, 2012 and February 28, 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Due within one year	**¥16**	¥22	**$197**
Due after one year	**2**	19	**25**
Total	**¥18**	¥41	**$222**

The pro forma information above does not exclude the imputed interest portion because the remaining financial lease obligations are not material compared with the book values of property, plant and equipment.

Obligations under non-cancelable operating leases at February 29, 2012 and February 28, 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
Due within one year	**¥ 75**	¥ 67	**$ 926**
Due after one year	**273**	330	**3,370**
Total	**¥348**	¥397	**$4,296**

14. Financial Instruments And Related Disclosures

In March 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance was applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the revised accounting standard and the guidance effective February 28, 2011.

(1) Group Policy for Financial Instruments

The Group invests cash surpluses in low risk financial instruments and uses bank loans to fund its ongoing operations. Derivatives are used mainly to manage foreign exchange risks, not for speculative purposes.

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

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

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

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

Loans are used to finance operating activities and exposed to risks of interest rate fluctuations, but all of them are short-term borrowings.

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

With regard to trade payables and loans, the Group is exposed to the liquidity risk. The Group manages this risk by periodic financial planning made 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. Also please see Note 15 for the details of fair value for derivatives.

(a) Fair Value of Financial Instruments

	Millions of yen			Thousands of U.S. dollars (Note 1)		
February 29, 2012	Carrying amount	Fair value	Unrealized gain/loss	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	**¥14,736**	**¥14,736**		**$181,926**	**$181,926**	
Marketable and investment securities	**2,295**	**2,295**		**28,333**	**28,333**	
Short-term investments	**905**	**905**		**11,173**	**11,173**	
Trade receivables	**9,849**	**9,849**		**121,592**	**121,592**	
Total	**¥27,785**	**¥27,785**		**$343,024**	**$343,024**	
Trade payables	**¥ 7,554**	**¥ 7,554**		**$ 93,260**	**$ 93,260**	
Short-term bank loans	**2,000**	**2,000**		**24,691**	**24,691**	
Total	**¥ 9,554**	**¥ 9,554**		**$117,951**	**$117,951**	
Derivatives	**¥ (97)**	**¥ (97)**		**$ (1,198)**	**$ (1,198)**	

	Millions of yen		
February 28, 2011	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥13,217	¥13,217	
Marketable and investment securities	2,550	2,550	
Short-term investments	1,578	1,578	
Trade receivables	9,289	9,289	
Total	¥26,634	¥26,634	
Trade payables	¥ 5,864	¥ 5,864	
Short-term bank loans	2,000	2,000	
Total	¥ 7,864	¥ 7,864	
Derivatives	¥ 36	¥ 36	

Cash and cash equivalents, 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 price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the marketable and investment securities by classification is included in Note 3.

Trade receivables

The carrying values of receivables approximate fair value because of their short maturities. Further, the carrying value of receivables due more than 1 year, arising from some overseas subsidiaries having installment sales, is 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.

Derivatives

The information on fair value of derivatives is included in Note 15.

(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)
	2012	2011	**2012**
Investments in equity instruments that do not have a quoted market price in an active market	**¥128**	¥129	**$1,580**
Investments in unconsolidated subsidiaries and associated companies	**32**	32	**395**
Total	**¥160**	¥161	**$1,975**

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

	Millions of yen			
February 29, 2012	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	**¥14,736**			
Marketable and investment securities	**412**	**¥401**		
Short-term investments	**905**			
Trade receivables	**9,321**	**528**		
Total	**¥25,374**	**¥929**		

	Millions of yen			
February 28, 2011	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥13,217			
Marketable and investment securities	399	¥ 638		
Short-term investments	1,578			
Trade receivables	8,661	628		
Total	¥23,855	¥1,266		

	Thousand of U.S. dollars (Note 1)			
February 29, 2012	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	**$181,926**			
Marketable and investment securities	**5,086**	**$ 4,951**		
Short-term investments	**11,173**			
Trade receivables	**115,074**	**6,518**		
Total	**$313,259**	**$11,469**		

15. Derivatives

Derivative transactions to which hedge accounting is not applied

At February 29, 2012	Millions of yen Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Receivables:	**¥2,160**		**¥(88)**	**¥(88)**
Payables:	**1,822**		**(9)**	**(9)**
Total				**¥(97)**

At February 28, 2011	Millions of yen Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Receivables:	¥1,331		¥ 8	¥ 8
Payables:	1,204		28	28
Total				¥36

At February 29, 2012	Thousands of U.S. dollars (Note 1) Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Receivables:	**$26,667**		**$(1,087)**	**$(1,087)**
Payables:	**22,494**		**(111)**	**(111)**
Total				**$(1,198)**

16. Comprehensive Income

For the year ended February 28, 2011

Total comprehensive income for the year ended February 28, 2011 was the following:

	Millions of yen 2011
Total comprehensive income attributable to:	
Owners of the parent	¥(2,399)
Minority interests	51
Total comprehensive income	¥(2,348)

Other comprehensive income for the year ended February 28, 2011 consisted of the following:

	Millions of yen 2011
Other comprehensive income:	
Unrealized loss on available-for-sale securities	¥ (15)
Foreign currency translation adjustments	(2,586)
Total other comprehensive income	¥(2,601)

17. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share (EPS) for the years ended February 29, 2012 and February 28, 2011 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income	Weighted average shares	EPS	
For the year ended February 29, 2012				
Basic EPS				
Net income attributable to common shareholders	**¥2,427**	**42,621**	**¥56.94**	**$0.70**
Effect of Dilutive Securities				
Stock acquisition rights				
Diluted EPS				
Net income for computation	**¥2,427**	**42,621**		
For the year ended February 28, 2011				
Basic EPS				
Net income attributable to common shareholders	¥ 161	43,576	¥ 3.71	$0.05
Effect of Dilutive Securities				
Stock acquisition rights				
Diluted EPS				
Net income for computation	¥ 161	43,576		

18. Segment Information

For the year ended February 29, 2012

In March 2008, the ASBJ revised ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, 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. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010. The segment information for the year ended February 28, 2011 under the revised accounting standard is not disclosed as equivalent information is disclosed under the former treatment.

1. Description of reportable segments

The Group's reportable segments are those for which separately 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 four reportable segments: "Special Products," "Components," "Machine Tools," and "Precision Products."

"Special Products" produces and sells POS printers, Visual cards, Readers/Writers and others.

"Components" produces and sells Electronic buzzers, Microphones, Speakers, Receivers and others.

"Machine Tools" produces and sells CNC automatic lathes and others.

"Precision Products" produces and sells Wristwatch parts, Optical connector parts, Automotive parts, Medical parts and others.

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

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

3. Information about sales, profit (loss), assets, liabilities and other items are as follows:

	Millions of yen					
2012	Special Products	Components	Machine Tools	Precision Products	Reconcili-ations	Consolidated
Sales to external customers	¥7,807	¥2,944	¥26,640	¥4,263		¥41,654
Intersegment sales or transfer						
Total	7,807	2,944	26,640	4,263		41,654
Segment profit (loss)	¥ 581	¥ (955)	¥ 5,366	¥ 762	¥(1,801)	¥ 3,953
Segment assets	¥6,179	¥2,963	¥28,689	¥5,641	¥ 8,453	¥51,925
Other items:						
Depreciation	223	95	702	455	132	1,607
Increase in property, plant and equipment and intangible assets	215	51	754	735	285	2,040

	Thousands of U.S. dollars (Note 1)					
2012	Special Products	Components	Machine Tools	Precision Products	Reconcili-ations	Consolidated
Sales to external customers	$96,383	$ 36,346	$328,889	$52,629		$514,247
Intersegment sales or transfer						
Total	96,383	36,346	328,889	52,629		514,247
Segment profit (loss)	$ 7,173	$(11,790)	$ 66,247	$ 9,407	$ (22,235)	$ 48,802
Segment assets	$76,284	$ 36,580	$354,185	$69,642	$104,358	$641,049
Other items:						
Depreciation	2,753	1,173	8,667	5,617	1,630	19,840
Increase in property, plant and equipment and intangible assets	2,654	630	9,309	9,074	3,518	25,185

Notes: 1. Reconciliations recorded for segment profit (loss) 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) and long-term investments (investment securities).
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 is agrees with operating profit on the accompanying consolidated statements of income.

Related Information

1. Related Information by geographical area at February 29, 2012 consisted of the following:

(1) Net Sales

	Millions of yen				
2012	Japan	USA	Germany	Others	Total
	¥8,485	¥8,830	¥5,873	¥18,466	¥41,654

	Thousands of U.S. Dollars (Note 1)				
2012	Japan	USA	Germany	Others	Total
	$104,753	$109,013	$72,506	$227,975	$514,247

Note: Sales are classified by countries or regions based on location of customers.

(2) Property, Plant and Equipment

	Millions of yen			
2012	Japan	China	Others	Total
	¥7,384	**¥1,618**	**¥1,287**	**¥10,289**

	Thousands of U.S. Dollars (Note 1)			
2012	Japan	China	Others	Total
	$91,161	**$19,975**	**$15,889**	**$127,025**

For the year ended February 28, 2011

Information about industry segments, geographical segments and sales to foreign customers of the Group for the year ended February 28, 2011 is as follows:

(1) Industry Segments

	Millions of yen					
2011	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	¥7,782	¥4,401	¥19,287	¥4,248		¥35,718
Intersegment sales						
Total sales	7,782	4,401	19,287	4,248		35,718
Operating expenses	7,041	4,959	17,112	3,524	¥ 1,653	34,289
Operating income (loss)	¥ 741	¥ (558)	¥ 2,175	¥ 724	¥ (1,653)	¥ 1,429
Total assets	¥5,677	¥4,233	¥24,997	¥5,897	¥ 8,446	¥49,250
Depreciation and amortization	205	135	829	469	124	1,762
Capital expenditures	56	89	465	190	174	974

* The segments sell the following products:
Special Products: POS printers, Visual cards, Readers/Writers, etc.
Components: Electronic buzzers, Microphones, Speakers, Receivers, etc.
Machine Tools: CNC automatic lathes, etc.
Precision Products: Wristwatch parts, Optical connector parts, Automotive parts, Medical parts, etc.

* Operating expenses in the eliminations or corporate column include general corporate expenses incurred by the Administration Headquarters of the Company. The amount was ¥1,653 million for the year ended February 28, 2011.

* Assets in the eliminations or corporate column include assets maintained by the Administration Headquarters of the Company and consist principally of excess funds under management (cash and cash equivalents) and long-term investments (investment securities). The amount was ¥8,446 million at February 28, 2011.

(2) Geographical Segments

	Millions of yen					
2011	Japan	Europe	America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Sales to customers	¥11,840	¥ 9,688	¥8,882	¥ 5,308		¥35,718
Inter-area transfers	18,528	42	24	10,999	¥(29,593)	
Total	30,368	9,730	8,906	16,307	(29,593)	35,718
Operating expenses	29,530	9,009	8,523	14,861	(27,634)	34,289
Operating income	¥ 838	¥ 721	¥ 383	¥ 1,446	¥ (1,959)	¥ 1,429
Assets	¥41,427	¥10,461	¥5,609	¥11,403	¥(19,650)	¥49,250

* The segments include the following countries:
Europe: United Kingdom, Germany, France and Switzerland
America: United States of America
Asia: China and Thailand

* Operating expenses in the eliminations or corporate column include general corporate expenses incurred by the Administration Headquarters of the Company. The amounts was ¥1,653 million for the year ended February 28, 2011.

* Assets in the eliminations or corporate column include assets maintained by the Administration Headquarters of the Company and consist principally of excess funds under management (cash and cash equivalents) and long-term investments (investment securities). The amount was ¥8,446 million at February 28, 2011.

(3) Sales to Foreign Customers

2011	Millions of yen
Europe	¥ 9,979
America	8,516
Asia	9,589
Total	¥28,084

* The segments include the following countries:
Europe: United Kingdom, Germany, Switzerland, France, etc.
America: United States of America, Mexico, Brazil, etc.
Asia: China, Republic of Korea, Taiwan, Thailand, etc.

19. Subsequent Event

The following appropriation of retained earnings at February 29, 2012 was to be approved at the Company's shareholders' meeting held on May 24, 2012:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥13 ($0.160) per share	**¥547**	**$6,753**

Independent Auditors' Report

Deloitte.

Deloitte Touche Tohmatsu LLC
AOI TOWER
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Shizuoka-shi, Shizuoka 420-0852
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Star Micronics Co., Ltd. and consolidated subsidiaries (the "Company") as of February 29, 2012 and February 28, 2011, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended February 29, 2012, and the related consolidated statements of changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Star Micronics Co., Ltd. and consolidated subsidiaries as of February 29, 2012 and February 28, 2011, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu LLC

May 14, 2012

Member of
Deloitte Touche Tohmatsu Limited

Stock Information

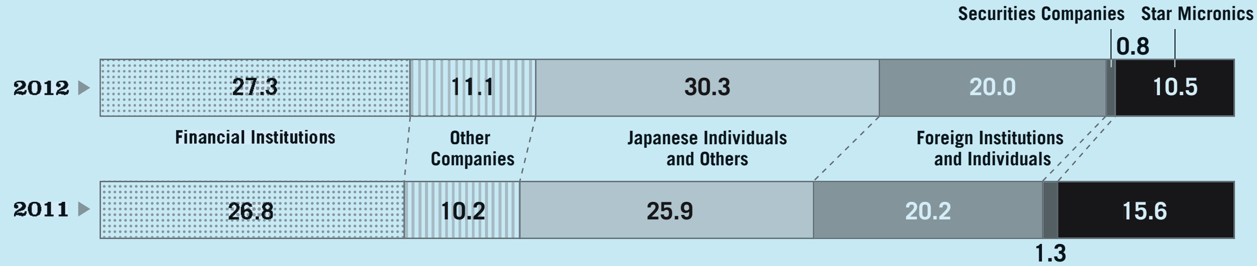
as of February 29, 2012

Common Stock	Authorized	158,000,000	**Stock Listing**	First Section of the Tokyo Stock Exchange
	Issued	47,033,234*	**Transfer Agent**	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan
Paid-in Capital		12,721,939,515 yen		
Number of Shareholders		11,353		

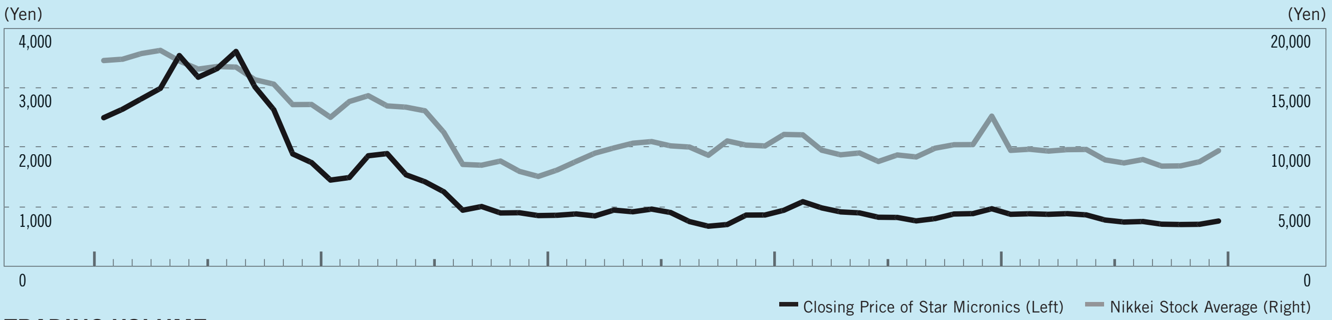
* The number of outstanding stock declined by 4,000,000 shares compared to February 28, 2011, as a result of the cancellation of some of our treasury stock.

COMPOSITION OF SHAREHOLDERS

(%)

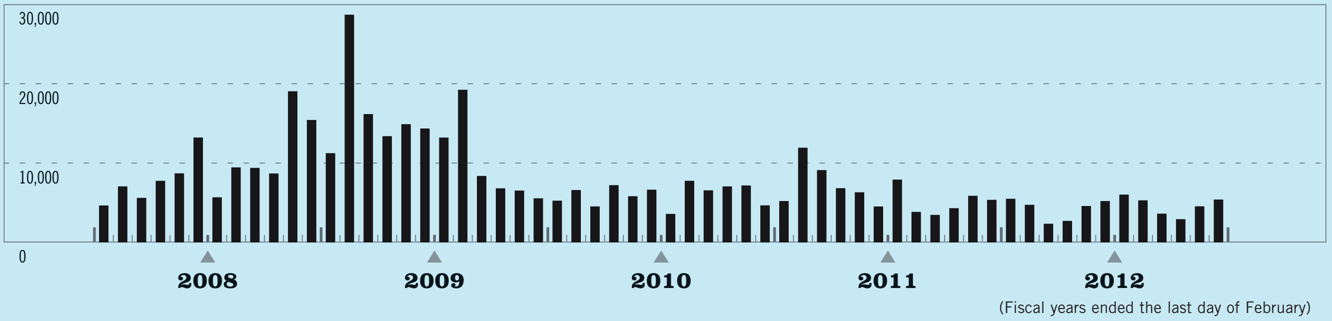


STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)



TRADING VOLUME

(Thousands of shares)



Notes: 1. This trading volume shows the monthly volume of trade on the Tokyo Stock Exchange. Each fiscal year starts in March and ends in February.
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)

(Years ended February)

Year	2008	2009	2010	2011	2012
At year-end	1,701	830	878	929	807
High	3,740	2,175	1,020	1,182	958
Low	1,506	773	595	702	657

Corporate Data

as of May 24, 2012

Directors, Executive Officers and Auditors

President and CEO	Hajime Sato
Managing Director	Chiaki Fushimi
Directors and Executive Officers	Hiroshi Tanaka Takashi Kuramae Junichi Murakami Mamoru Sato
Executive Officers	Takayuki Aoki Hiroyuki Sugiura
Corporate Auditors	Takao Tsuboi Hide Doko Kenjiro Ueno

Corporate Data

Corporate Name	Star Micronics Co., Ltd.
Head Office	20-10 Nakayoshida, Suruga-ku, Shizuoka 422-8654, Japan Tel. +81-54-263-1111 Fax. +81-54-263-1057
Established	July 6, 1950

Group Network

▶ Overseas Subsidiaries

Star Micronics America, Inc.	1150 King Georges Post Road, Edison, NJ 08837, USA	Tel. +1-732-623-5500
Star Micronics Europe Ltd.	Star House, Peregrine Business Park, Gomm Road, High Wycombe, Bucks, HP13 7DL, UK	Tel. +44-1494-471111
Star Precisions Ltd.	18/F., Enterprise Square II, 3 Sheung Yuet Road, Kowloon Bay, Hong Kong	Tel. +852-3412-0700
Star Micronics Manufacturing Dalian Co., Ltd.	2, Huang Hai Street, Dalian Economic and Technical Development Zone, Dalian, PRC	Tel. +86-411-87611535
Star Micronics AG	Lauetstrasse 3 CH-8112 Otelfingen, Zurich, Switzerland	Tel. +41-43-411-6060
Star Micronics GB Ltd.	Chapel Street, Melbourne, Derbyshire, DE74 8JF, UK	Tel. +44-1332-864455
Star Micronics GmbH	Robert-Grob-Str. 1, D-75305 Neuenbuerg, Germany	Tel. +49-7082-7920-0
Star CNC Machine Tool Corporation	123 Powerhouse Road, Roslyn Heights, NY 11577, USA	Tel. +1-516-484-0500
Star America Holding, Inc.	Suite 100, 30 Old Rudnick Lane, Dover, DE 19901, USA	
Shanghai S&E Precision Co., Ltd.	1-39, East Kangqiao Road, Kangqiao Industrial Zone, Pudong, Shanghai, PRC	Tel. +86-21-68130222
Star Machine Tool France SAS	55 Avenue du Mont Blanc, F-74950 Scionzier, France	Tel. +33-450-96-05-97
Shanghai Xingang Machinery Co., Ltd.	229 Fute Road (N), Waigaoqiao Free Trade Zone, Shanghai 200131, PRC	Tel. +86-21-58682100
Star Micronics (Thailand) Co., Ltd.	26/59 1st & 3rd Floors, M7 Soi Kingkaew 62/2 Kingkaew Rd, T. Rachathewa A. Bangplee, Samutprakarn 10540, Thailand	Tel. +66-2-175-1923-25
Star Micronics Precision (Thailand) Co., Ltd.	42 Moo 4 Rojana Industrial Park, Tambol Banchang, Amphur U-Thai, Ayutthaya 13210, Thailand	Tel. +66-3-574-6569
Star Micronics Southeast Asia Co., Ltd.	Room 2902C, 29th Floor, United Center Bldg., 323 Silom Road, Silom Bangrak, Bangkok 10500, Thailand	Tel. +66-2-631-1161
Star Micronics Manufacturing (Thailand) Co., Ltd.	Nakhon Ratchasima, Thailand	

▶ Japanese Subsidiaries

Micro Sapporo Company	3-705-2 Shinkouminami, Ishikari, Hokkaido 061-3244	Tel. +81-133-64-3663
Star Metal Company	1500-133 Kitanoya, Misawa, Kikugawa, Shizuoka 439-0023	Tel. +81-537-35-0026

* Micro Fujimi Company was dissolved effective February 29, 2012.

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VEGETABLE OIL INK

Printed in Japan