Setting a Course for Growth

Annual Report 2013 (PDF Version)

For the year ended February 28, 2013

STAR MICRONICS CO., LTD.

Profile

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; 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.

* The Components Segment was renamed the Micro Audio Components Segment in the fiscal year ending February 28, 2014.

Contents

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.

Star in Figures (Financial Highlights)

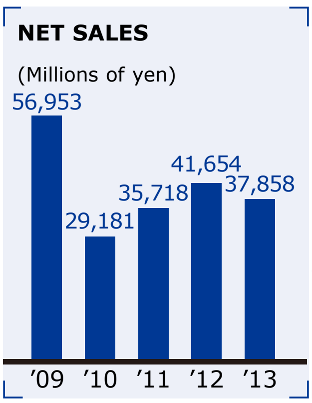
Star Micronics Co., Ltd. and Consolidated Subsidiaries

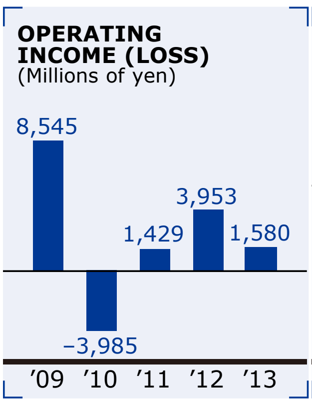
For the years ended February 2011, 2012 and 2013

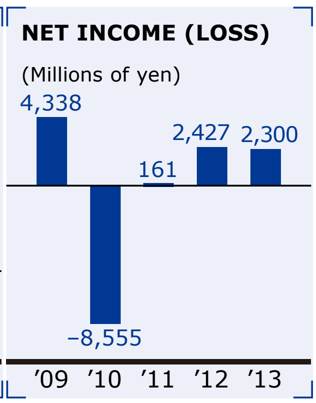
	Millions of yen			Change (%)	Thousands of U.S. dollars
	2011	2012	2013	2013/2012	2013
For the year:					
Net sales	¥ 35,718	¥ 41,654	¥ 37,858	(9.1%)	$ 407,075
Operating income	1,429	3,953	1,580	(60.0%)	16,989
Net income	161	2,427	2,300	(5.2%)	24,731
Return on sales	0.5%	5.8%	6.1%		
Capital expenditures	974	2,040	4,373	114.4%	47,022
Depreciation and amortization	1,762	1,607	1,743	8.5%	18,742
At year-end:					
Total assets	49,250	51,925	52,564	1.2%	565,204
Total equity	37,096	36,980	40,710	10.1%	437,742
Equity ratio	73.9%	70.2%	76.1%		
	Yen			Change (%)	U.S. dollars
Per share:					
Basic net income	¥ 3.71	¥ 56.94	¥ 54.66	(4.0%)	$ 0.59
Cash dividends applicable to the year	22.00	26.00	30.00	15.4%	0.32
Stock information:					
Common shares issued	51,033,234	47,033,234*	47,033,234		
Number of shareholders	10,929	11,353	10,029		

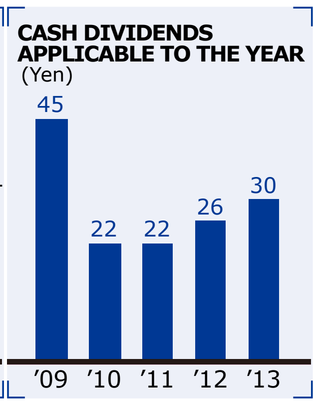
Note: The rate of ¥93 to US$1, prevailing on February 28, 2013, has been used for translation into U.S. dollar amounts.

* 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.









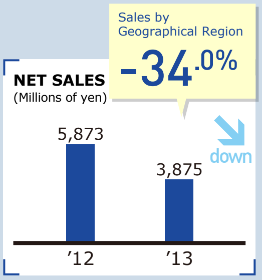
Star in Figures (At a Glance by Region)

In principle, Star Micronics seeks out global niche markets in developing business domains. The key markets of Europe and the U.S. remain important to Star Micronics, but it is also taking a global perspective in optimizing everything from planning and development to manufacturing and sales with a focus on Asia, which is expected to grow, as it works to enhance its corporate value.

Germany

SALES BY SEGMENT

10.2%

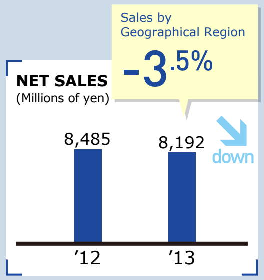


- In the Special Products Segment, demand was sluggish in the European market for dot matrix printers due mainly to the impact of curbs on capital investment.
- In the Machine Tools Segment, sales declined in the European market, as demand stayed low on account of the region's fiscal and monetary problems.

Japan

SALES BY SEGMENT

21.6%

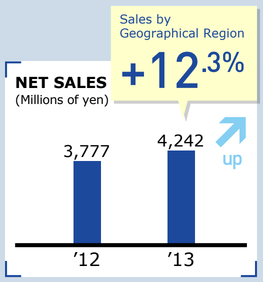


- In the Machine Tools Segment, sales declined in the latter half of the fiscal year, despite an increase in production at automakers in the first half.
- In the Precision Products Segment, sales declined due to the widening impact of production cutbacks of Japan-made wristwatches through the second half of the fiscal year.

China

SALES BY SEGMENT

11.2%



- In the Special Products Segment, sales of dot matrix printers declined in Asia because of slowing economic growth in China and other factors.
- In the Machine Tools Segment, sales increased in the Asian market due to robust capital investment among customers in the electronic appliance, automobile-related and other sectors.
- In the Precision Products Segment, sales of car audio components in Asia declined through the second half of the fiscal year, as did sales of HDD components due to production cutbacks.

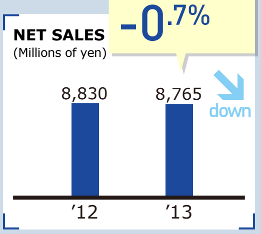
USA

SALES BY SEGMENT

23.2%

Sales by Geographical Region

-0.7%



- In the Special Products Segments, sales grew on the back of higher demand in the North American market as economic conditions began to recover.
- In the Machine Tools Segment, sales declined, despite increased capital investments in medical equipment and automobile-related sectors.

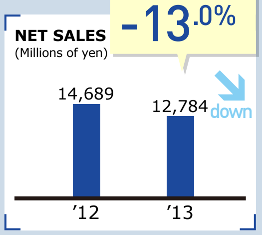
Others

SALES BY SEGMENT

33.8%

Sales by Geographical Region

-13.0%



New Machine Tools Plant Built in Thailand

The Machine Tools Segment has established a new plant in Thailand, giving the Company a three country production framework; the Company already has plants in Dalian, China, and Kikugawa, Japan. In the year ending February 28, 2018, the segment plans to be able to manufacture six thousand units a year with this production framework. It plans to use this production system to meet demand in expanding emerging markets, as well as to allocate production resources according to trends in the U.S., European and other markets, with the aim of achieving greater distribution efficiency.

The new Thai plant is located in Nakhon Ratchasima Province to the northeast of Bangkok. It will begin operations with a workforce of around one hundred people and plans to be able to produce about four hundred units per year by the end of 2013. L ke the Dalian plant, the new plant will focus on middle-range to low-end machines, while the high-end models will be produced by the Kikugawa plant in Japan. The commencement of operations at the new Thai plant will dramatically cut transport lead times for products destined for Southeast Asia and Europe as well as costs compared with transport from Dalian. Looking ahead, Star Micronics intends to build an optimal production and distribution system using the three plants in Japan, China and Thailand.

To Our Shareholders

Setting a Course for Growth

With a More Assertive Management Approach

Hajime Sato
President and CEO

Looking back, this was a year of challenging business conditions. In addition to sovereign debt problems in the European economies and China's economic growth slowing in Asia, these challenges included the yen's exchange rate drifting along at a strong level.

On the brighter side, we were successful at nurturing the seeds for new business our various business segments developed. The year ending February 28, 2014 will be spent re-solidifying our foundation for growth, and changing course to a more assertive management approach.

Review of Business Performance

In fiscal 2013, the year ended February 28, 2013, the U.S. economy saw a modest recovery. By contrast, European economies were sluggish overall due to the impact of the sovereign debt problems on the real economy. In Asia, the pace of growth slowed, particularly in China. In Japan, there were signs that the economy was recovering, but it could not avoid the impact of the slowing down of the world economy. The yen's exchange rate remained at a high level overall.

Amid this environment, the Star Micronics Group's Machine Tools Segment saw sales decline, primarily in our main market in Europe. Meanwhile, the Special Products Segment experienced a strong trend in POS thermal printer sales in its North American market. This was in stark contrast to sales of the segment's dot-matrix printers, which declined as a consequence of demand turning sluggish in the European market and economic growth for China slowing in the Asian market. Sales in the Precision Products Segment fell owing to lower sales of wristwatch components as a result of wristwatch makers cutting back production, and diminishing demand for non-wristwatch components. As we prepared to close it down, the Components Segment saw sales of products for the automobile market improve in response to car makers increasing their production, and upward price revisions reflecting rising raw material costs.

As a result, the Star Micronics Group reported a 9.1% decrease in consolidated net sales to ¥37,858 million in fiscal 2013. Due mainly to sales declining, operating income fell a substantial 60.0% to ¥1,580 million, and net income declined 5.2% to ¥2,300 million despite the recording of gains that included insurance payments received on flood damage in Thailand.

To compensate our shareholders, Star Micronics has decided to pay a full-year dividend of ¥30 per share.

Market Outlook

Looking at the economic situation in fiscal 2014, I see conditions brightening most in the U.S. relative to the other main markets of Europe, Asia and Japan. Among the main reasons I can list for this are upticks in macro-economic indicators, including upswings in housing prices and improvements in the unemployment rate, as well as stock indices rising to record levels in the U.S. I would also expect personal consumption to spur the U.S. economy, 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. Adding China to this mix makes Asia a giant market comprising 40% of the world's 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. By contrast, I expect China to continue growing at a slower pace in relation to its spate of exceptionally high economic growth in previous years.

On the other hand, I expect difficult conditions to prevail for the year in Europe. This is in contradiction to others who are hoping for the economies there to begin recovering from the second half of 2013.

Higher expectations toward a change of incumbent political parties have begun to brighten prospects in Japan. But optimism will continue to receive no quarter in my book, considering downsides that include Japan's consumption tax hike scheduled for 2014.

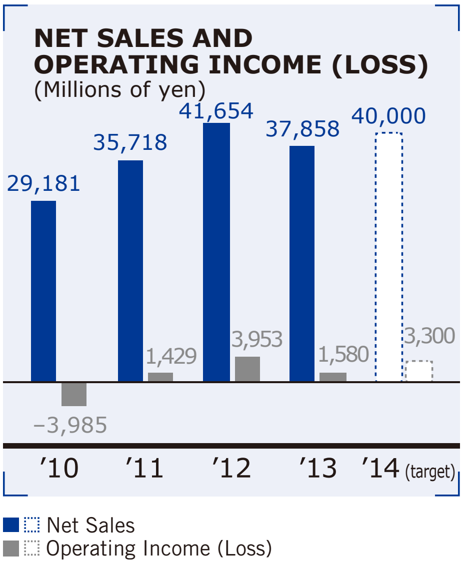
Fiscal 2014 Outlook

In view of all this, Star Micronics as a basic policy will keep emphasizing the Asian market in enhancing business development overseas. This will be done even as the European and North American markets remain important to the Company.

Most of all, Asia apart from Japan is a promising and attractive growth market for the entire Star Micronics Group. There, we will aim in particular to expand our market share of printers in the ASEAN region.

Our business environment in the U.S. will probably be immune to major swings in the economy, given that 60% of our sales of machine tools there are to the medical equipment industry. What's more, U.S. companies are also generating firm demand for our machine tools in South America where they are moving in to do business in Brazil, Argentina and elsewhere.

Meanwhile, the orders our main Machine Tools Segment receives from Europe may slump as the euro's exchange rate strengthens to erode the momentum of German exporters. For this reason, I expect conditions in Europe to remain challenging in the fiscal year ending February 28, 2014.



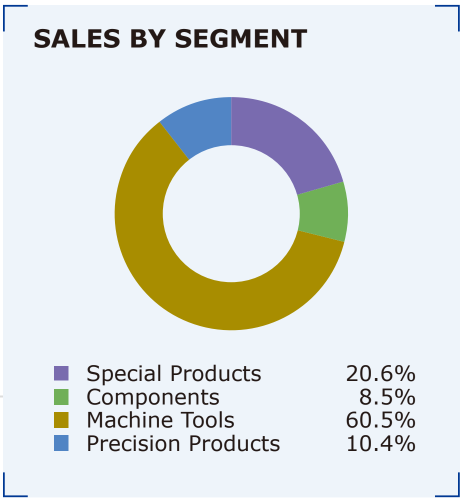
Consequently, for the year ending February 28, 2014, Star Micronics is projecting ¥40,000 million in net sales, ¥3,300 million in operating income and ¥2,300 million in net income.

To provide you with a reference point, our projections are based on the assumption of the yen's exchange rate averaging ¥90.00 to the U.S. dollar and ¥120.00 to the euro.

Initiatives by Business Segment

Special Products:

Here we will apply software to differentiate product functions, as it can be difficult to differentiate products as a piece of hardware in this business. This applies also to the promising business of mobile printers, where we plan on promoting compat bility with various operating software (OS) for smartphones and tablet devices in developing the business far and wide around the world. Marketing for Special Products will be geared toward expanding sales in the growing markets of the ASEAN region. This will be done through a sales subsidiary we established in Bangkok, Thailand, as a marketing base for this segment in Southeast Asia.



Machine Tools:

Our foot will remain firmly planted in the mainstay North American and European markets of our Machine Tools Segment as we strive to establish beachheads in the heady emerging markets of Asia. We will also work on enhancing the product lineup of our fixed headstock automatic lathes. The marketing potential for this new type of lathe, which we aim to develop going forward, is more than twice the size of our existing markets for sliding headstock automatic lathes. Apart from this, we will start up production at our new factory in Thailand to establish a manufacturing framework consisting of three production bases in Japan, China and Thailand for the Machine Tools business. These three production bases will be utilized to their fullest in building an optimal manufacturing and distribution framework going forward.

Precision Products:

Few competitors operate on a scale comparable to the Star Micronics Group in machine processing precision products, or indeed are capable of integrating the production of these products 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, and steadily raise our performance in this business as a result. The sales ratio of wristwatch to non-wristwatch components in our Precision Products business is around 4:6, currently. Looking ahead, I want to expand business in wristwatch components within Japan and non-wristwatch components overseas, while maintaining this ratio pretty much constant. Our medium-term vision for this segment is for our operating bases in Dalian and Shanghai (China), and Ayutthaya (Thailand) to each achieve ¥1,000 million in sales. More to the point, this means that our aim is to double the segment's annual sales overseas to ¥3,000 million total.

Micro Audio Components*:

We plan to ultimately close down our Components Segment, which we have continued to operate in part to fulfill our obligations for the micro audio components we supply car makers. However, we also plan on continuing research on the micro audio technologies we have nurtured, with the intention of commercializing them as products in the future.

* The Components Segment was renamed the Micro Audio Components Segment in the fiscal year ending February 28, 2014.

Research and Development Initiatives Looking Ahead

An R&D Center was established in the year ended February 28, 2013. This division will develop new products capable of buttressing our businesses going forward, in addition to providing our operating segments with product development support. Apart from product research integrating our sophisticated hardware with cutting-edge software programming, this R&D center is conducting research in connection with our audio device and sensor technologies developed over many years.

For new software in particular, the R&D Center assembled a development team in the U.S. where programming is thriving and on the cutting edge. This team will be spearheading the center's efforts in creating new business models.

We also plan for the R&D Center to examine M&As that may produce synergies with the technologies we have nurtured to date, while keeping an eye on possible alliances with other companies.

Enhancing Corporate Value

Corporate Governance

At Star Micronics, our basic approach to corporate governance is based on fulfilling our social responsibilities as a company. This we will do by working to increase corporate value sustainably through proper and efficient management, and appropriately distr buting the resulting profits to shareholders and other stakeholders.

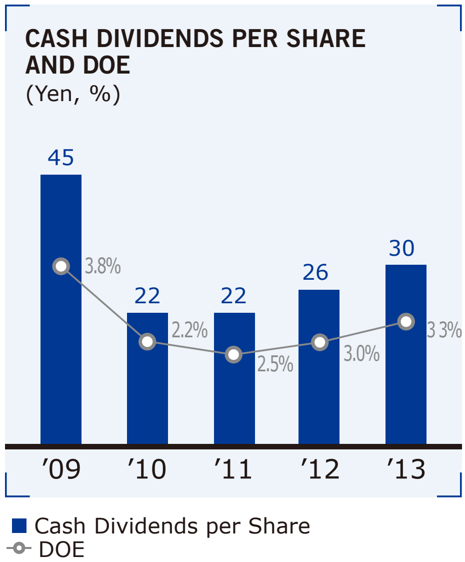
What's more, in order to respond rapidly and flex bly to changes in the business environment, Star Micronics introduced an Executive Officer System in fiscal 2013 to speed up management decision-making and increase the efficiency of business execution by management. To do this, the system separates the management decision-making and supervisory functions from the business execution function.

Our Policy on Equity

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 in the global niche markets we serve. Furthermore, we a m to be an attractive company in the eyes of our shareholders and other investors, particularly for those who are seeking long-term shareholdings.

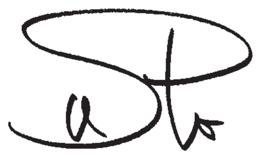
We base our decisions regarding the distribution of profits on a target consolidated dividend payout ratio of at least 40% while taking into account our consolidated dividend on equity (DOE). Consequently, we decided to raise our annual dividend by ¥4 to ¥30 per share in fiscal 2013. Our policy over the medium term is to aim for a DOE in excess of 4.5%. We hereby redouble our resolve to emphasize returning profits to shareholders and work toward ach eving a stable and consistent increase in dividends.

Star Micronics plans to examine M&A transactions involving the exchange of equity as a way of leveraging the roughly 5 million shares in treasury stock we currently hold. We also plan to keep an eye on opportunities for buying back more of our own shares.



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

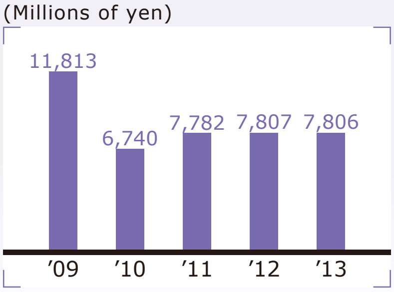
May 2013



Hajime Sato
President and CEO

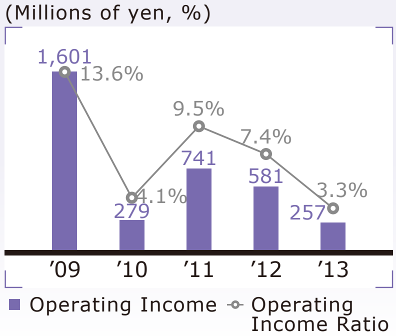
NET SALES

(Millions of yen)



OPERATING INCOME & OPERATING INCOME RATIO

(Millions of yen, %)



Although sales were on par with the previous year as thermal printers performed favorably centered on the Americas and Japan, operating income fell drastically. The segment will continue working to increase sales in ASEAN and South America.

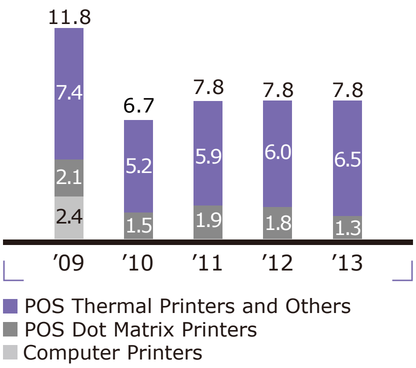
Business Environment and Results in Fiscal 2013

Point-of-sale (POS) printers found in places such as department stores, supe markets 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, and by developing mobile printers designed for tablets, smartphones and other devices.

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.

SPECIAL PRODUCTS SEGMENT SALES

(Billions of yen)



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

However, the segment continued to face a severely challenging business environment during fiscal 2013. The segment faced the emergence of even more competing manufacturers based in the emerging markets and the yen's exchange rate remained highly appreciated overall, in addition to the impact of such factors as the fiscal crisis in Europe and the sluggish growth of the Chinese economy.

By region, ma ket environments in the Americas were comparatively stable. In particular, the South American market was strong and demand in the North American market continued to recover. In Europe, demand was sluggish mainly due to restrained spending on capital investment resulting from debt-related concerns. Sales declined even in the Chinese market reflecting the impact of slowing growth in the country.

As a result, segment sales slightly decreased year on year to ¥7,806 million (US$83,936 thousand), and operating income fell 55.8% year on year to ¥257 million (US$2,764 thousand) in the fiscal year under review.

Shipments of POS Printers

(Thousands of units)

	2012	2013	Change
Europe	132	128	(3.0%)
The Americas	242	229	(5.4%)
Asia	135	116	(14.1%)
Japan and elsewhere	32	46	43.8%
Total	541	520	(3.9%)

Outlook for Fiscal 2014

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 flex bility and attention to detail. We expect demand to continue expanding in the emerging markets, primarily in Latin America and Russia, and will work to expand our sales of cost competitive, strategic POS printer models in these regions. In particular, we aim to expand sales in South America centered on Brazil, which plans to host the 2014 FIFA World Cup Brazil™ and the Rio 2016 Summer Olympics. We will also fully enlist our 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.

TSP100ECO POS Printer

For business results, we are projecting segment sales of ¥9,180 million, up 17.6% from the previous fiscal year, and operating income of ¥1,100 million, an increase of 328.0% year on year.

Feature Column

Growing Demand for Mobile Printers

Mobile printers 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.

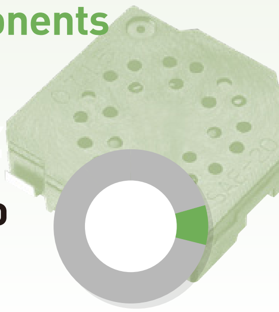
Japan IT Week Spring 2012 at Tokyo Big Sight

Star Micronics launched such a printer terminal for sale in the U.S. in March 2010. In Japan, our printer terminal was officially adopted in 2012 by NTT DATA Corporation as the printer for a new cloud service. In these and other ways, Star Micronics is building a steady track record in this field.

Going forward, we will work to further expand sales by steadily developing printers that are compatible with the various operating systems for smartphones and tablets.

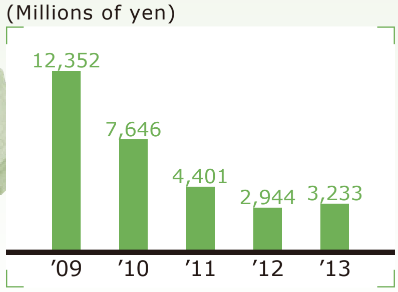
Components

SALES BY SEGMENT
8.5%



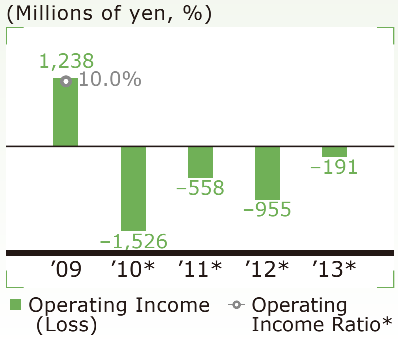
NET SALES

(Millions of yen)



OPERATING INCOME (LOSS) & OPERATING INCOME RATIO

(Millions of yen, %)



We continue to ship micro audio components for automobiles, for which we have supply obligations to car makers. Ultimately, however, we plan to close the segment.

Business Environment and Results in Fiscal 2013

The Components Segment includes a wide range of micro audio components, centered on microphones, rece vers, speakers and e ectronic buzzers. In an effort to cultivate new markets our business focus in components has shifted from mobile phones to automotive applications and a wide range of digital equipment. However, since we do not expect earnings to recover in the Components business, we are taking actions such as selling individual product businesses Ultimately, we plan to close the segment

In fiscal 2013, sales of components to the automobile market increased year on year mainly due to car makers increasing their production, and upward price revisions reflecting rising raw material costs.

As a result, sales in the Component Segment rose 9.8% to ¥3,233 million (US$34,763 thousand). However, the segment posted an operating loss of ¥191 million (US$2,054 thousand).

We ended production and sales of microphones and receivers as of the end of fiscal 2013.

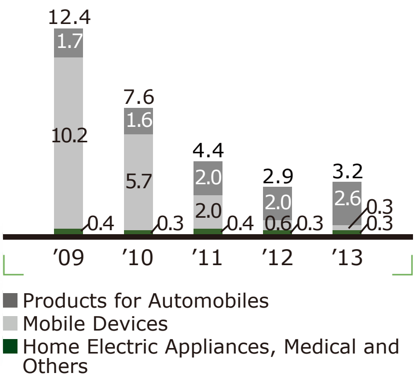
Outlook for Fiscal 2014

We will focus our efforts in the fiscal year ending February 2014 on closing the Components Segment.

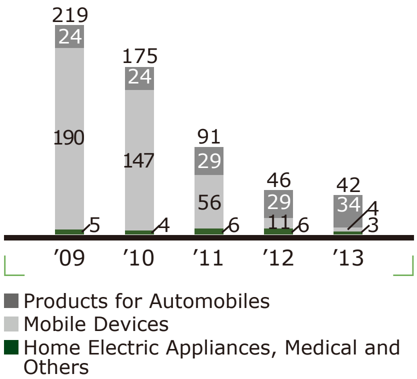
On the other hand, we plan to retain the Segment's R&D department and continue researching the micro audio technologies we have been nurturing for the past 40 years, as we seek new business opportunities in the future.

Speaker SAE-20A

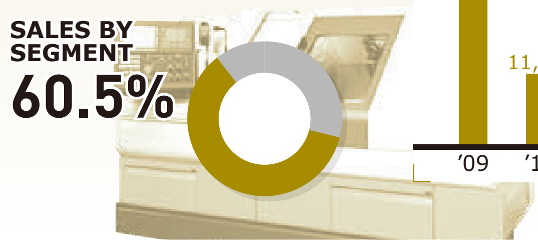
COMPONENTS SEGMENT SALES
(Billions of yen)



COMPONENTS SEGMENT SALES BY VOLUME
(Millions of units)

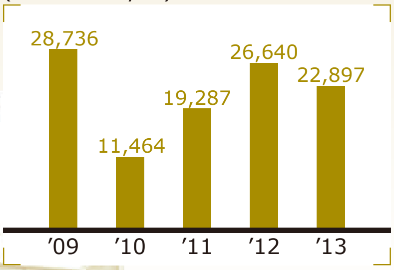


Machine Tools



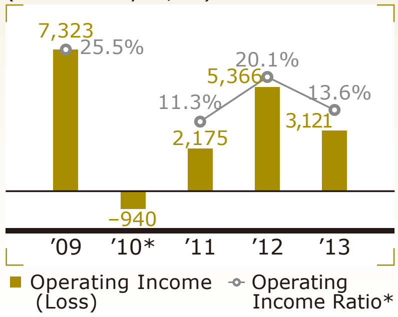
NET SALES

(Millions of yen)



OPERATING INCOME (LOSS) &
OPERATING INCOME RATIO

(Millions of yen, %)

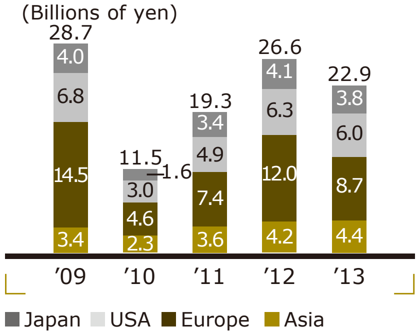


The Machine Tools Segment's sales and earnings declined due to stagnant market conditions in Europe. Looking ahead, we will take steps to enhance product lineups, such as developing a new series of fixed headstock automatic lathes.

Business Environment and Results in Fiscal 2013

Star Micronics' Swiss-Type CNC Automatic Lathes have garnered international acclaim and e joy igh 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.

MACHINE TOOLS SEGMENT SALES BY GEOGRAPHICAL REGION
(Billions of yen)



In fiscal 2013, market conditions generally weakened around the world. To illustrate, the European market saw soft demand due to the impact of fiscal and financial issues, while uncertainty lingered over China and other Asian economies.

By region, the mainstay European market languished as it bore the brunt of a decline in capital investment due to the economic slowdown caused by fiscal problems and other issues. Sales in the U.S. market declined, despite increased capital investments in the medical equipment and automotive-related sectors. Sales in the Asian market increased mainly due to robust capital investment among customers in the electronic appliance, automobile-related and other sectors. On the other hand, in the Japanese market, sales declined due to restrained capital investment reflecting the yen's appreciation, despite an increase in production mainly among automakers.

As a result, sales volume decreased 7.1% to 1,837 units. By value, sales decreased 14.1% to ¥22,897 million (US$246,204 thousand). Operating income declined by a substantial 41.8% to ¥3,121 million (US$33,559 thousand).

The Group commenced sales of the new *SR-20RIV* model as an addition to its bestselling *SR* series of CNC Swiss-Type multi-axis lathes in November 2012. Prior to this, the *SR-20RIV* had been unveiled in September 2012 for international exhibition at the IMTS 2012 in the U.S. and the AMB 2012 in Germany. The model was then shown at the JIMTOF 2012 exh bition in Japan in November. In addition, the Group also unveiled the *SB-20R type N*, the first non-guide bush model in the *SB* series of core lathes.

As regards the Thai plant under construction, part of the work has been completed and preparation for starting operations is proceeding.

Machine Tools Segment Sales Volume by Geographical Region

(Units)

	2012	2013	Change
Japan	374	353	(5.6%)
Asia	533	637	19.5%
Europe	715	519	(27.4%)
USA	355	328	(7.6%)
Total	1,977	1,837	(7.1%)

Outlook for Fiscal 2014

CNC Swiss-Type Automatic Lathe ST-38

In fiscal 2014, while continuing to put emphasis on the mainstay European market, we will pour energy into cultivating emerging markets, including those in Asia, where growth has been continuing apace.

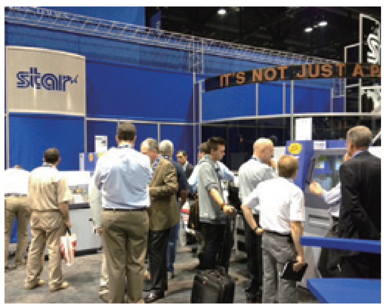
To this end, we will step up the development of new products and allocate human resources with the aim of building up a track record in Asia and the emerging markets. Having brought the new factory in Thailand on line, we will work to establish a supply chain capable of sustaining the segment's growth and earnings expansion by optimizing the segment's production and logistics 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.

In consideration of anticipated growth in sales to the Asian market, we are projecting higher sales and earnings for the Machine Tools Segment in the year ending February 2014. Sales are projected to increase 7.4% to ¥24,600 million and operating income is projected to increase 29.1% to ¥4,030 million.

Feature Column

New CNC Swiss-Type Automatic Lathe *SR-20RIV* Launched

New CNC Swiss-Type Automatic Lathe *SR-20RIV*

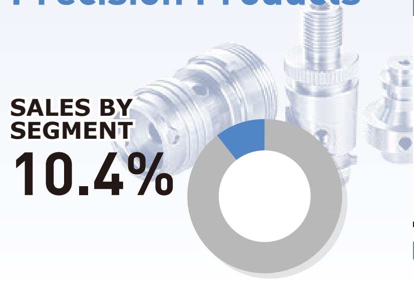


IMTS 2012 in Chicago

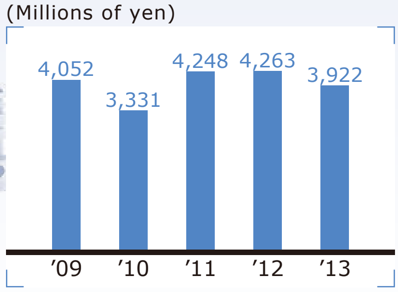
Ever since the launch of the first model in 1992, the *SR* series of CNC Swiss-Type multi-axis lathes has undergone a success of model changes according to market needs. As a result, the *SR* series has produced Star Micronics' best-selling models, with cumulative sales volume of 12,000 units. We developed the *SR-20RIV* model as a new product designed to further enhance the capabilities of the *SR* series, featuring enhanced multi-axis lathe functions. Star Micronics commenced sales of *SR-20RIV* in November 2012, targeting parts machining in the medical and automobile sectors.

We displayed the new *SR-20RIV* model at international exhibitions such as the IMTS in Chicago, U.S.A., and the AMB in Stuttgart, Germany. The model was also shown at the JIMTOF 2012 exhibition in Tokyo. Large numbers of customers visited the Star Micronics booth at each exhibition, highlighting strong interest in the new *SR-20RIV* model. Going forward, Star Micronics will work to win orders for the new model worldwide, with the view to expanding sales.

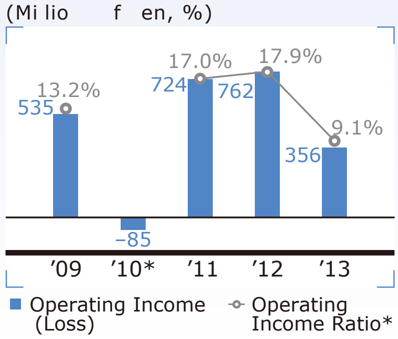
Precision Products



NET SALES



OPERATING INCOME (LOSS) &
OPERATING INCOME RATIO



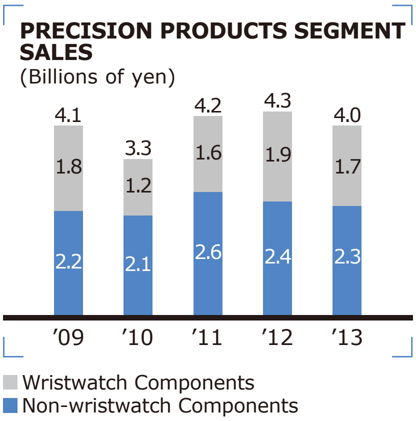
Sales of wristwatch components declined as wristwatch makers cut back production. Sales of non-wristwatch components also decreased as HDDs were impacted by production cutbacks caused by lackluster PC sales.

Business Environment and Results in Fiscal 2013

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 decreased 12.2% year on year to ¥1,652 million (US$17,763 thousand), due to the growing impact of production cutbacks by wristwatch makers on sales in the second half.

Meanwhile, non-wristwatch components saw sales of components for overseas car audio products decline in the second half. Sales of components for hard disk drives (HDDs) also decreased, reflecting the impact of production cutbacks caused by lackluster PC sales. Separately, Star Micronics had fully restored operations at its Ayutthaya production site in Thailand by August 2012, after the site had sustained flood damage.



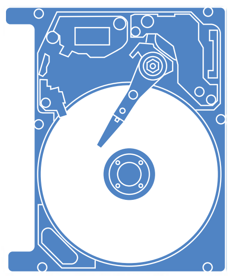
As a result, non-wristwatch components sales fell 4.7% year on year to ¥2,269 million (US$24,398 thousand), and accounted for 57.9% of total segment sales.

Consequently, total segment sales decreased 8.0% to ¥3,922 million (US$42,172 thousand). As a result of the sales decrease, the Precision Products Segment posted operating income of ¥356 million (US$3,828 thousand).

Outlook for Fiscal 2014

Going forward, we think that our target customers in the Precision Products Segment will speed up the development of supply chains consisting of multiple supply sites. To this end, we will strengthen the production capacity of our three manufacturing bases in Dalian and Shanghai in China, and Ayutthaya in Thailand, and work to expand sales. 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 ¥4,050 million, up 3.3% year on year, and a 23.6% increase in operating income to ¥440 million.



* 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 year ended February 2011, 2012 and 2013.

Corporate Governance

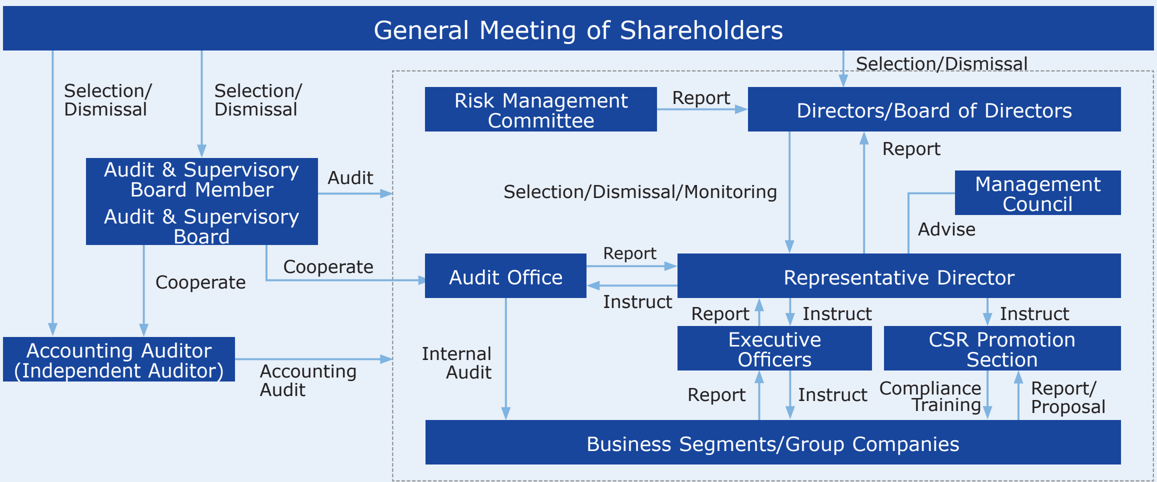
At Star Micronics, our basic approach to corporate governance is based on fulfilling our social responsibilities as a company. To this end, we strive for management that is both appropriate and efficient at sustainably raising corporate value, while distributing an appropriate amount of the resulting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

Star Micronics uses the Audit & Supervisory Board member 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. Audit & Supervisory Board members 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.

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

Although there are no outside appointees to the Board of Directors of Star Micronics, the three outside Audit & Supervisory Board members 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 Audit & Supervisory Board members 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.

STAR MICRONICS' CORPORATE GOVERNANCE SYSTEM



Compensation of Directors and Audit & Supervisory Board Members

Members of the Board of Directors at Star Micronics are compensated in accordance with the Company's earnings performance. Their package consists of a basic compensation that is paid monthly 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, Audit & Supervisory Board members 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 Audit & Supervisory Board members is set within a range no higher than ¥22 million a year. Star Micronics holds discussions with each Audit & Supervisory Board member 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.

Breakdown of Compensation of Directors and Audit & Supervisory Board Members

Director rank	Total compensation, etc. (¥ million)	Total compensation by category (¥ million)			Headcount of those eligible
		Basic compensation	Stock options	Bonus	
Directors (excluding outside directors)	175	89	17	68	8
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	-	-	-	-	-
Outside directors	16	16	-	-	3

Notes:

1. There are no outside appointees to the Board of Directors of Star Micronics. By contrast, the Company's Audit & Supervisory Board is comprised entirely of outside appointees.
2. The figures for “Stock options” and “Bonus” are the monetary amounts recorded as expenses in the fiscal year under review.
3. The headcount above includes two directors who had resigned following the Company's Ordinary General Shareholders' Meeting for the 87th Period, held on May 24, 2012. The compensation of directors includes the basic ¥9 million Star Micronics paid as compensation for service until retirement and ¥4 million in stock options. There are currently six directors as of the end of the fiscal year under review.
4. The amounts disclosed above exclude ¥76 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 ¥72 million in total to three 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. Two of the directors above have resigned following the Ordinary General Shareholders' Meeting for the 87th period held on May 24, 2012, and received retirement benefits of ¥31 million.

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 respons bility 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

	2013	2012	2011	2010
For the year:				
Net sales	**¥37,858**	¥41,654	¥35,718	¥ 29,181
Cost of sales	**24,683**	25,753	23,265	22,326
Selling, general and administrative expenses	**11,595**	11,948	11,024	10,840
Operating income (loss)	**1,580**	3,953	1,429	(3,985)
Other income (expenses) – net	**2,140**	(724)	(1,069)	(2,665)
Income (loss) before income taxes and minority interests	**3,720**	3,229	360	(6,650)
Income taxes	**1,330**	717	107	1,800
Minority interests in net income	**90**	85	92	105
Net income (loss)	**2,300**	2,427	161	(8,555)
Net cash provided by operating activities	**483**	4,466	3,520	4,769
Net cash used in investing activities	**(1,908)**	(393)	(1,518)	(1,194)
Free cash flows	**(1,425)**	4,073	2,002	3,575
Net cash used in financing activities	**(1,202)**	(2,092)	(1,813)	(3,977)
Per share:				
Basic net income (loss)	**¥ 54.66**	¥ 56.94	¥ 3.71	¥(187.95)
Diluted net income				
Cash dividends applicable to the year	**30.00**	26.00	22.00	22.00
At year-end:				
Current assets	**¥35,827**	¥38,302	¥34,836	¥ 34,346
Net property, plant and equipment	**13,476**	10,289	10,549	11,678
Total assets	**52,564**	51,925	49,250	50,681
Long-term liabilities	**303**	407	423	592
Total equity	**40,710**	36,980	37,096	41,261
Stock exchange price per share of common stock:				
Highest	**¥988**	¥958	¥1,182	¥1,020
Lowest	**647**	657	702	595
Selected financial indicators:				
Equity ratio (%)	**76.1**	70.2	73.9	80.1
Return on equity (%)	**6.0**	6.7	0.4	
Dividend payout ratio (%)	**54.9**	45.7	593.0	
Dividend on equity (%)	**3.3**	3.0	2.5	2.2

Millions of yen (Except for per share data)

2009	2008	2007	2006	2005	2004	2003
¥56,953	¥73,884	¥62,670	¥54,788	¥49,690	¥43,332	¥38,612
33,535	42,207	37,004	32,875	30,742	28,161	25,225
14,873	17,025	15,222	13,805	12,605	11,621	10,979
8,545	14,652	10,444	8,108	6,343	3,550	2,408
(984)	(271)	410	(68)	(688)	(286)	(980)
7,561	14,381	10,854	8,040	5,655	3,264	1,428
3,147	6,190	3,719	2,799	1,881	828	997
76	111	122	89	(1)	10	(3)
4,338	8,080	7,013	5,152	3,775	2,426	434
6,152	10,666	10,711	4,594	6,891	8,024	8,085
(1,314)	(8,072)	(3,169)	(3,619)	(2,016)	(1,582)	(1,606)
4,838	2,594	7,542	975	4,875	6,442	6,479
(9,077)	(2,152)	(1,331)	(866)	(2,149)	(5,265)	(2,218)
¥ 85.66	¥150.74	¥131.09	¥ 95.60	¥ 70.13	¥ 44.12	¥ 7.77
85.63	150.47	130.73	95.38	70.09		
45.00	56.00	32.00	21.00	15.00	11.00	10.00
¥44,762	¥63,152	¥53,620	¥44,615	¥40,170	¥36,355	¥38,424
15,169	17,728	16,355	16,210	14,698	15,604	17,602
64,205	86,375	76,195	66,826	60,013	57,898	62,403
459	696	920	793	349	1,277	2,575
52,986	66,602	61,396	54,295	47,754	44,613	45,024

Yen

¥2,175	¥3,740	¥2,710	¥2,090	¥1,030	¥830	¥1,120
773	1,506	1,691	941	704	418	420
81.5	76.2	79.9	81.2	79.6	77.1	72.2
7.3	12.8	12.2	10.1	8.2	5.4	0.9
52.5	37.2	24.4	22.0	21.4	24.9	128.7
3.8	4.7	3.0	2.2	1.7	1.3	1.2

Management's Discussion and Analysis

Overview

(Years endend February 28, 2013 and February 29, 2012)

Business Environment

In fiscal 2013, the year ended February 28, 2013, the U.S. economy saw a modest recovery. By contrast, European economies were sluggish overall due to the impact of the sovereign debt problems on the real economy. In Asia, the pace of growth slowed, particularly in China. In Japan, there were signs that the economy was recovering, but it could not avoid the impact of the slowing down of the world economy. The yen's foreign exchange rate, meanwhile, remained strong against major currencies.

Net Sales

(Millions of yen)

2012	**2013**	Change (%)
¥41,654	**¥37,858**	(9.1)

Sales decreased primarily due to lower sales in Europe by the Machine Tools Segment.

Operating Income

(Millions of yen)

2012	**2013**	Change (%)
¥3,953	**¥1,580**	(60.0)

There was also a decrease in operating income, partly due to the yen's strong exchange rate, in addition to lower sales.

Net Income

(Millions of yen)

2012	**2013**	Change (%)
¥2,427	**¥2,300**	(5.2)

Net income decreased, despite insurance income and gain on sales of investment securities.

Cash Dividends per Share

(Yen)

2012	**2013**	Change (yen)
¥26	**¥30**	¥4

The cash dividends in the year under review increased ¥4 from the previous year to ¥30 per share.

Total Assets

(Millions of yen)

2012	**2013**	Change (%)
¥51,925	**¥52,564**	1.2

Total assets rose from the end of the previous fiscal year. This was mainly due to an increase in property, plant and equipment, despite decreases in cash and cash equivalents, and trade notes and accounts receivable.

Free Cash Flows

(Millions of yen)

2012	**2013**	Change (%)
¥4,073	**¥(1,425)**	–

This term saw negative free cash flows. This was due to cash used for items such as purchases of property, plant and equipment associated with the construction of a new factory in Thailand, which offset cash provided by items such as income before income taxes, including insurance income.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

(Millions of yen)

2012	**2013**	Change (%)
¥2,040	**¥4,373**	114.4

Capital expenditures increased, mainly due to the construction of a new factory in Thailand.

Sales by Region

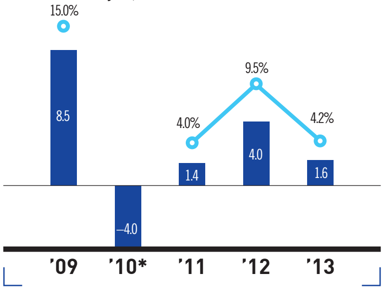
(Millions of yen)

	2012	**2013**	Change (%)
Japan	¥ 8,485	**¥ 8,192**	(3.5)
USA	8,830	**8,765**	(0.7)
China	3,777	**4,242**	12.3
Germany	5,873	**3,875**	(34.0)
Others	14,689	**12,784**	(13.0)

Income Analysis

▶ Sales and operating income both decreased, primarily due to lower machine tool sales in Europe.

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 2013, the fiscal year under review, Star Micronics reported consolidated sales of ¥37,858 million (US$407,075 thousand), down 9.1%, or ¥3,796 million, year on year. This outcome reflected the impact of lower sales in Europe by our core Machine Tools business. The cost of sales decreased ¥1,070 million, or 4.2%, to ¥24,683 million (US$265,408 thousand). As a result of the above, gross profit decreased ¥2,726 million, or 17.1%, to ¥13,175 million (US$141,667 thousand). The gross profit margin decreased 3.4 percentage points to 34.8%.

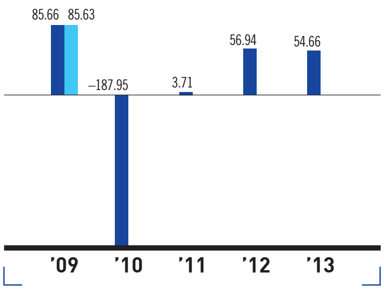
Selling, general and administrative expenses (SG&A) expenses decreased ¥353 million year on year, or 3.0%, to ¥11,595 million (US$124,678 thousand). This decrease was due mainly to lower transportation and packaging costs, and a decrease in direct costs, such as sales commissions, in line with declining sales.

As a result of the above, the Company saw operating income decrease a sharp 60.0%, or ¥2,373 million, year on year, to ¥1,580 million (US$16,989 thousand).

▶ Net income decreased despite recording insurance income and a gain on sales of investment securities.

NET INCOME (LOSS) PER SHARE

(Yen)



■ Basic Net Income (Loss)
■ Diluted Net Income

Other income—net was ¥2,140 million (US$23,011 thousand) compared to other expenses—net of ¥724 million in the previous fiscal year. The major non-operating gains recorded in the year under review were ¥971 million (US$10,441 thousand) in insurance income on damage from the flooding in Thailand, and ¥525 million (US$5,645 thousand) in gain on sales of investment securities.

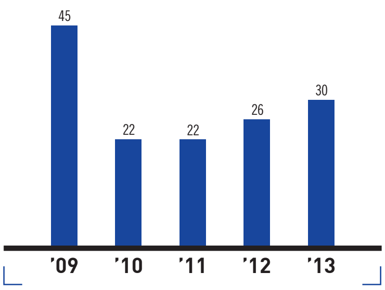
As a result, the Company saw income before income taxes and minority interests increase ¥491 million year on year to ¥3,720 million (US$40,000 thousand). Total income taxes were ¥1,330 million (US$14,301 thousand). Net income after deducting minority interests was ¥2,300 million (US$24,731 thousand).

Basic net income per share was ¥54.66 (US$0.59).

▶ Dividend increased ¥4 year on year to ¥30 per share.

CASH DIVIDENDS PER SHARE

(Yen)



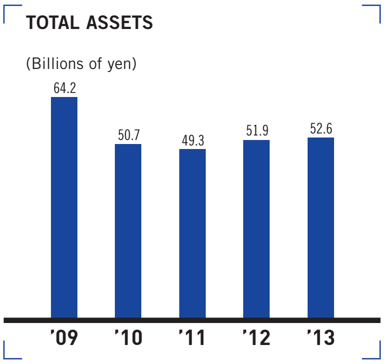
The Company increased the annual dividend ¥4 for the year under review to ¥30 (US$0.32) per share. Total dividends increased ¥155 million, or 14.0%, to ¥1,262 million (US$13,570 thousand). We plan to increase the annual dividend ¥4 in the fiscal year ending February 2014 to ¥34 per share.

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 value and shareholder profits.

Financial Position and Liquidity

▶ Total assets increased mainly due to an increase in property, plant and equipment, despite a decrease in cash and cash equivalents and trade notes and accounts receivable.

Total current assets as of February 28, 2013 were ¥35,827 million (US$385,237 thousand), a decrease of ¥2,475 million, or 6.5%, compared with the previous fiscal year-end. This decrease chiefly reflected a decrease in cash and cash equivalents of ¥1,538 million, or 10.4%, to ¥13,198 million (US$141,914 thousand), as well as a decrease in trade notes and accounts receivable of ¥773 million, or 8.2%, to ¥8,629 million (US$92,785 thousand), in line with lower sales.



Net property, plant and equipment increased ¥3,187 million, or 31.0%, to ¥13,476 million (US$144,903 thousand). This rise was due mainly to construction of a new factory in Thailand in the Machine Tools business, resulting in an increase of ¥1,684 million, or 13.2%, in buildings and structures to ¥14,452 million (US$155,398 thousand) and of ¥236 million, or 524.4%, in construction in progress to ¥281 million (US$3,022 thousand). Total investments and other assets decreased ¥73 million, or 2.2%, to ¥3,261 million (US$35,064 thousand). This was due to a decrease of ¥137 million, or 45.4%, in deferred tax assets to ¥165 million (US$1,774 thousand) and of ¥253 million, or 28.6%, in other assets to ¥633 million (US$6,806 thousand), despite an increase of ¥317 million, or 15.8%, in investment securities to ¥2,326 million (US$25,011 thousand).

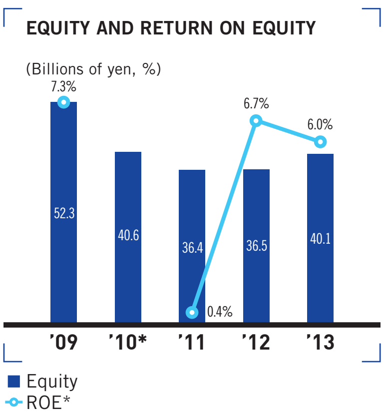
As result of the above, total assets increased ¥639 million, or 1.2%, from February 29, 2012 to ¥52,564 million (US$565,204 thousand).

▶ **Total liabilities fell, mainly due to a decrease in trade payables, reflecting lower purchases.**

On the other side of the balance sheet, current liabilities decreased ¥2,987 million, or 20.5%, to ¥11,551 million (US$124,204 thousand). This decline mainly reflected a decrease of ¥2,273 million, or 30.1%, in trade notes and accounts payable to ¥5,279 million (US$56,763 thousand) on account of lower purchases and ¥1,374 million, or 60.7%, in other current liabilities to ¥889 million (US$9,559 thousand).

Total long-term liabilities decreased ¥104 million, or 25.6%, to ¥303 million (US$3,258 thousand).

▶ **Equity rose year on year due mainly to increase in retained earnings.**

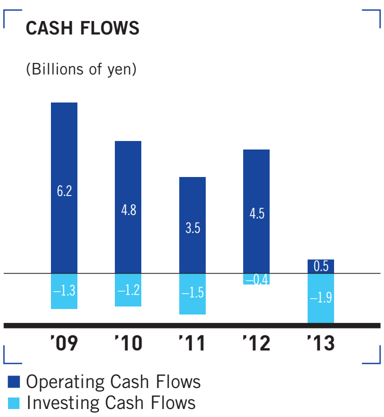


* ROE was not calculated for fiscal 2010 because a net loss was incurred.

Equity increased ¥3,566 million, or 9.8%, to ¥40,054 million (US$430,688 thousand). This was largely the result of an increase in retained earnings of ¥1,121 million, or 4.8%, year on year, to ¥24,379 million (US$262,140 thousand) in line with the Company posting net income of ¥2,300 million, as well as an increase in unrealized gain on available-for-sale securities of ¥226 million, or 982.6%, to ¥249 million (US$2,677 thousand). Total equity including minority interests was ¥40,710 million (US$437,742 thousand). The equity ratio rose 5.9 percentage points to 76.1%, while equity per share increased ¥84.20 to ¥951.14 (US$10.23).

Cash Flows

▶ **Net cash provided by operating activities decreased due largely to decreases in trade payables and other – net, despite an increase in income before income taxes and minority interests, including insurance income.**



Net cash provided by operating activities decreased ¥3,983 million to ¥483 million (US$5,193 thousand). This was largely attributable to ¥1,031 million (US$11,086 thousand) in income taxes-paid and ¥1,999 million (US$21,495 thousand) in cash used in other – net, as well as to ¥1,581 million (US$17,001 thousand) in cash used by the net result of changes in trade receivables, trade payables and inventories, reflecting a sizeable decline in trade payables.

Net cash used in investing activities was ¥1,908 million (US$20,516 thousand), an increase of ¥1,515 million from the previous fiscal year. This chiefly reflected ¥3,266 million (US$35,118 thousand) in net cash used for purchases of property, plant and equipment, despite cash of ¥956 million (US$10,280 thousand) from proceeds from sales of investment securities and of ¥621 million (US$6,677 thousand) from proceeds from sales of property, plant and equipment.

Net cash used in financing activities was ¥1,202 million (US$12,925 thousand), a decrease of ¥890 million from the previous fiscal year. This was mainly the result of ¥1,177 million (US$12,656 thousand) in dividends paid to shareholders.

As a result of the above, after foreign currency translation adjustments on cash and cash equivalents of ¥1,089 million, cash and cash equivalents as of February 28, 2013 totaled ¥13,198 million (US$141,914 thousand), representing a net decrease of ¥1,538 million from the previous fiscal year-end.

Capital Expenditures and R&D Expenses

▸ Capital expenditures increased primarily as a result of the Machine Tools Segment building a new factory in Thailand.

Capital expenditures in fiscal 2013 rose ¥2,333 million, or 114.4%, year on year to ¥4,373 million (US$47,022 thousand). In fiscal 2014, the Company is forecasting capital expenditures of ¥2,476 million.

Special Products

Expenditures in the Special Products Segment fell ¥56 million year on year to ¥159 million (US$1,710 thousand). In fiscal 2014, the Company is budgeting ¥257 million of expenditures in this segment, mostly for dyes used in manufacturing new models.

Components

Expenditures in the Components Segment fell ¥24 million year on year to ¥27 million (US$290 thousand).

Machine Tools

Expenditures in the Machine Tools Segment increased ¥1,943 million from the previous fiscal year to ¥2,697 million (US$29,000 thousand), mainly to build a new factory in Thailand. In fiscal 2014, the Company is budgeting expenditures of ¥1,525 million for this segment, mostly for the factory's production facilities and equipment.

Precision Products

Expenditures in the Precision Products Segment rose ¥593 million year on year to ¥1,328 million (US$14,280 thousand), mostly to restore a factory in Thailand damaged by flooding in the previous fiscal year. In fiscal 2014, we expect to spend ¥498 million primarily to bolster the segment's manufacturing capacity.

▸ In R&D Activities, the Company established a new R&D Center.

R&D Center

The R&D Center was established in the year ended February 28, 2013 by combining the Head Office Research and Development Department with parts of the development departments of the Special Products and Components businesses. This newly created center worked to cultivate commercially viable businesses in new fields and provide technical support to all of the Company's segments.

In terms of cultivating new businesses, the R&D Center launched a number of projects, including projects for developing devices applying acoustics and sensing technologies and for developing printer-related technologies. It teamed up with external partners to conduct development activities toward mass production as well. The R&D Center also aims to build new business models by undertaking research of high-value-added products created by fusing the Company's storehouse of hardware with cutting-edge software technologies.

The R&D Center continues to provide other segments within the Company with technical support in the four areas of physico-chemical analysis, sophisticated computer aided engineering (CAE), quality engineering, and value engineering (VE), as it works to raise the technology level of the whole Company. The center 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. In these and other ways, the center will continue to fulfill a Company-wide technology and intellectual property role going forward.

Special Products

This segment works to develop high-value-added products mainly for growth markets, centered on POS printers.

In the year ended February 28, 2013, the segment developed four types of printers that obtained certification under the Apple MFi license program: the high-performance desktop thermal printer *TSP650II BI* and mobile printers *SM-S210i*, *SM-T300i*, and *SM-T400i*. These products are ideally suited for the iPad, iPod Touch and other Apple iOS devices that are commanding a growing share as on-demand payment systems and tablet POS terminals. Because the printers can be paired via Bluetooth with devices running Android or other operating systems as well, there is no need to use different printers for different devices. Moreover, by providing StarIO free of charge as software for facilitating the development of applications, the Company has made it more convenient for users, who no longer have to deal with complicated communication control when designing applications.

The segment also developed AsuraCPRNT™, an all-in-one next-generation multifunction terminal featuring an OS and touch panel that is based on the Company's compact thermal printers, which have won plaudits in the POS market worldwide. This product can be loaded with users' proprietary applications, enabling it to be used for many different types of applications such as a standalone unmanned information terminal (store kiosk), a digital signage device for displaying images and text information, and a thin client terminal for cloud-based solutions. The adoption of a compact, yet stylish design means the product can be effectively used in confined spaces inside stores. Furthermore, the optional integrated magnetic stripe reader (MSR) and barcode reader (BCR) and various connection interfaces integrated into the main unit allow users to widely extend the functionality according to the applications they install. What's more, Star Micronics is offering via its website a special SDK kit for AsuraCPRNT™ application developers, as it supports the development of high-quality user applications.

Machine Tools

The Machine Tools Segment worked on development initiatives for expanding and improving the product line of Swiss-type automatic lathes. In the year ended February 28, 2013, the segment developed the *SR-20RIV type A, type B* sophisticated machine tools for complex machining; and the *SB-20R type N*, a low-cost automatic lathe. In addition, we revamped the *SR-10J type C* low-cost lathe for complex machining. Furthermore, Star Micronics announced the *SR-20RIV type A, type B*, and *SR-10J type C* at three international exhibitions, namely International Manufacturing Technology Show 2012 (IMTS2012), International Exhibition for Metal Working 2012 (AMB2012) and Japan International Machine Tool Fair 2012 (JIMTOF2012), as well as announced the *SB-20R type N* at JIMTOF2012.

SR-20RIV type A, type B were developed as successors to the *SR-20RIII*, which has garnered enormous support from the market for its superb balance in terms of functions, speed and cost performance. Due to its enhanced functions and performance with a gang-type tool post, this product is targeted at machining of components with complex shapes in a broad range of fields, including medical components and automotive components. Due to the change in the tool layout of the gang-type tool post from a conventional L-type arrangement to a portal-type arrangement, the number of tools that can be accommodated has been increased. *Type B* has a 3-axis power-driven tool unit for B-axis control. The mounting of an 8-axis unit with Y-axis control function on the rear of the tool post, has significantly increased both front- and rear-side machining capacity. Moreover, since the product features a function for switching between a guide bush and no guide bush, it is able to machine everything from short components to long components. In addition, Type B is equipped with Star Micronics' proprietary Star Motion Control System to minimize non-cutting time for switching the control system and changing tools.

The *SB-20R type N* is a non-guide bush type machine in the SB series of Swiss type automatic lathes that has earned a strong reputation in Japan and emerging markets as a highly rigid, low-cost machine. The tool post employs a slant-type slide guideway and the main headstock employs a spindle sleeve-type slideway. These Star Micronics original structures enhance the machine rigidity and accuracy in continuous machining. This also saves waste of expensive materials by dramatically shortening the length of waste materials. There are 2 types of a gang-type tool post for front end working—a 4-spindle type and a 5-spindle type. The 5-spindle type has 5 power tools among which 3 power tools can be changed. Through a variety of combinations, a maximum of 30 tools can be attached. Furthermore, the tool post for rear-end working can be optionally fitted with a spindle mechanism for upgrading functions, including eccentric drilling, slitting and other complex machining on the rear side.

The *SR-10J type C* employs a proprietary slant-type slide guideway structure for realizing high tool post rigidity and stable accuracy for a long time. While preserving these features, Type C is also fitted with the latest CNC system to enhance performance and high-speed processing to shorten machining time. Moreover, in addition to C-axis control on the main spindle, sub-spindles also feature this control as standard, thereby enhancing the machine's complex machining ability. The machine also features a color display, and various stage support functions, for greater operability.

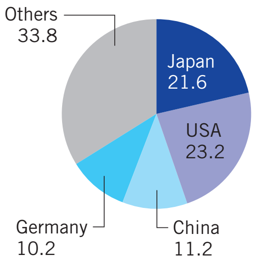
Development of machine tool software centered mainly on ongoing improvements in operability, functionality and safety features, always with a firm eye on market needs.

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 marketing sites overseas. (See table)

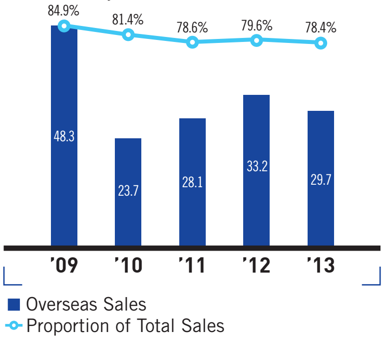
	U.K.	Germany	France	Switzerland
Special Products	Star Micronics Europe Ltd.			
Machine Tools	Star Micronics GB Ltd.	Star Micronics GmbH	Star Machine Tool France SAS	Star Micronics AG

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

▶ Overseas sales as a share of total sales fell 1.2 percentage points to 78.4% on a decline in overseas sales excluding China.

OVERSEAS SALES AND PROPORTION OF TOTAL SALES

(Billions of yen, %)



In the fiscal year under review, overseas sales as a proportion of total sales decreased 1.2 percentage points to 78.4%.

By region, net sales in Germany fell ¥1,998 million to ¥3,875 million (US$41,667 thousand).

Net sales in the U.S. decreased ¥65 million to ¥8,765 million (US$94,247 thousand).

By contrast, net sales in China rose ¥465 million to ¥4,242 million (US$45,613 thousand).

In Japan, net sales decreased ¥293 million to ¥8,192 million (US$88,086 thousand).

Consolidated Balance Sheet

Star Micronics Co., Ltd. and Consolidated Subsidiaries
February 28, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2013**	2012	**2013**
Current assets:			
Cash and cash equivalents (Note 14)	**¥ 13,198**	¥ 14,736	**$ 141,914**
Marketable securities (Notes 3 and 14)	**229**	413	**2,462**
Short-term investments (Notes 4 and 14)	**790**	905	**8,495**
Receivables (Note 14):			
Trade notes and accounts receivable	**8,629**	9,402	**92,785**
Unconsolidated subsidiaries and associated companies	**520**	447	**5,592**
Other	**696**	715	**7,484**
Allowance for doubtful receivables	**(85)**	(99)	**(914)**
Inventories (Notes 5 and 12)	**11,398**	11,379	**122,559**
Deferred tax assets (Note 10)	**166**	179	**1,785**
Prepaid expenses and other	**286**	225	**3,075**
Total current assets	**35,827**	38,302	**385,237**
Property, plant and equipment (Note 12)**:**			
Land	**2,919**	2,614	**31,387**
Buildings and structures	**14,452**	12,768	**155,398**
Machinery and equipment	**21,113**	22,451	**227,021**
Lease assets (Note 13)	**104**	84	**1,118**
Construction in progress	**281**	45	**3,022**
Total	**38,869**	37,962	**417,946**
Accumulated depreciation	**(25,393)**	(27,673)	**(273,043)**
Net property, plant and equipment	**13,476**	10,289	**144,903**
Investments and other assets:			
Investment securities (Notes 3 and 14)	**2,326**	2,009	**25,011**
Investments in unconsolidated subsidiaries and associated companies	**137**	137	**1,473**
Deferred tax assets (Note 10)	**165**	302	**1,774**
Other assets	**633**	886	**6,806**
Total investments and other assets	**3,261**	3,334	**35,064**
Total	**¥ 52,564**	¥ 51,925	**$ 565,204**

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 1) 2013
Current liabilities:			
Payables (Note 14):			
Trade notes and accounts payable	¥ 5,279	¥ 7,552	$ 56,763
Unconsolidated subsidiaries and associated companies	1	2	11
Other	1,609	1,242	17,301
Short-term bank loans (Notes 6 and 14)	2,000	2,000	21,505
Current portion of long-term debt (Notes 6 and 13)	23	18	247
Income taxes payable (Note 10)	192	422	2,065
Accrued expenses	726	775	7,807
Deferred tax liabilities (Note 10)	832	264	8,946
Other	889	2,263	9,559
Total current liabilities	11,551	14,538	124,204
Long-term liabilities:			
Long-term debt (Notes 6 and 13)	35	39	376
Liability for retirement benefits (Note 7)	39	33	420
Deferred tax liabilities (Note 10)	80	156	860
Other	149	179	1,602
Total long-term liabilities	303	407	3,258
Contingent liabilities (Note 13)			
Equity (Notes 8, 9 and 19):			
Common stock, – authorized, 158,000,000 shares; issued, 47,033,234 shares in 2013 and 2012	12,722	12,722	136,796
Capital surplus	13,876	13,876	149,204
Stock acquisition rights (Note 9)	35	11	376
Retained earnings	24,379	23,258	262,140
Treasury stock – at cost 4,957,879 shares in 2013 and 4,957,248 shares in 2012	(4,710)	(4,710)	(50,645)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	249	23	2,677
Foreign currency translation adjustments	(6,497)	(8,692)	(69,860)
Total	40,054	36,488	430,688
Minority interests	656	492	7,054
Total equity	40,710	36,980	437,742
Total	¥52,564	¥51,925	$565,204

See notes to consolidated financial statements.

Consolidated Statement of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net sales	¥37,858	¥41,654	$407,075
Cost of sales (Note 7)	24,683	25,753	265,408
Gross profit	13,175	15,901	141,667
Selling, general and administrative expenses (Notes 7 and 11)	11,595	11,948	124,678
Operating income	1,580	3,953	16,989
Other income (expenses):			
Interest and dividend income	187	206	2,011
Interest expense	(11)	(12)	(118)
Foreign exchange gain (loss) – net	331	(209)	3,559
Insurance income (Note 12)	971		10,441
Gain on sales of property, plant and equipment	388	169	4,172
Loss on disposals of property, plant and equipment	(38)	(45)	(409)
Gain on sales of investment securities	525		5,645
Loss on disposition of foreign currency translation adjustments		(439)	
Loss on disaster (Note 12)		(438)	
Special severance payments for early retired employees	(381)	(34)	(4,097)
Other – net	168	78	1,807
Other expenses – net	2,140	(724)	23,011
Income before income taxes and minority interests	3,720	3,229	40,000
Income taxes (Note 10):			
Current	709	883	7,624
Deferred	621	(166)	6,677
Total	1,330	717	14,301
Net income before minority interests	2,390	2,512	25,699
Minority interests in net income	90	85	968
Net income	¥ 2,300	¥ 2,427	$ 24,731

	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 2.r, 8 and 17):			
Basic net income	¥54.66	¥56.94	$0.59
Diluted net income			
Cash dividends applicable to the year	30.00	26.00	0.32

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net income before minority interests (Note 16)	¥2,390	¥2,512	$25,699
Other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	226	(23)	2,430
Foreign currency translation adjustments	2,272	(547)	24,430
Total other comprehensive income (loss)	2,498	(570)	26,860
Comprehensive income (Note 16)	¥4,888	¥1,942	$52,559
Total comprehensive income attributable to (Note 16):			
Owners of the parent	¥4,721	¥1,858	$50,763
Minority interests	167	84	1,796

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2013

	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, 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
Net income					**2,300**				**2,300**		**2,300**
Cash dividends, ¥30.0 per share					**(1,179)**				**(1,179)**		**(1,179)**
Net increase in unrealized gain on available-for-sale securities							**226**		**226**		**226**
Net increase in foreign currency translation adjustments								**2,195**	**2,195**		**2,195**
Purchase of treasury stock	**(1)**					**(0)**					
Net change in the year				**24**					**24**	**164**	**188**
Balance, February 28, 2013	**42,075**	**¥12,722**	**¥13,876**	**¥35**	**¥24,379**	**¥(4,710)**	**¥249**	**¥(6,497)**	**¥40,054**	**¥ 656**	**¥40,710**

	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 29, 2012	$136,796	$149,204	$118	$250,086	$(50,645)	$ 247	$(93,462)	$392,344	$5,290	$397,634
Net income				**24,731**				**24,731**		**24,731**
Cash dividends, $0.32 per share				**(12,677)**				**(12,677)**		**(12,677)**
Net increase in unrealized gain on available-for-sale securities						**2,430**		**2,430**		**2,430**
Net increase in foreign currency translation adjustments							**23,602**	**23,602**		**23,602**
Purchase of treasury stock					**(0)**					
Net change in the year			**258**					**258**	**1,764**	**2,022**
Balance, February 28, 2013	**$136,796**	**$149,204**	**$376**	**$262,140**	**$(50,645)**	**$2,677**	**$(69,860)**	**$430,688**	**$7,054**	**$437,742**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Operating activities:			
Income before income taxes and minority interests	**¥ 3,720**	¥ 3,229	**$ 40,000**
Adjustments for:			
Income taxes – paid	**(1,031)**	(583)	**(11,086)**
Depreciation and amortization	**1,743**	1,607	**18,742**
Loss on disposition of foreign currency translation adjustments		439	
Loss on disaster		438	
Reversal of doubtful receivables	**(24)**	(121)	**(258)**
Provision for retirement benefits	**5**	5	**54**
Gain on sales and disposals of property, plant and equipment	**(350)**	(124)	**(3,763)**
Changes in assets and liabilities:			
Decrease (Increase) in trade receivables	**1,546**	(962)	**16,623**
Decrease (Increase) in inventories	**58**	(2,282)	**623**
(Decrease) Increase in trade payables	**(3,185)**	1,820	**(34,247)**
Other – net	**(1,999)**	1,000	**(21,495)**
Total adjustments	**(3,237)**	1,237	**(34,807)**
Net cash provided by operating activities	**483**	4,466	**5,193**
Investing activities:			
Purchases of property, plant and equipment	**(3,266)**	(1,267)	**(35,118)**
Proceeds from sales of property, plant and equipment	**621**	208	**6,677**
Purchases of marketable securities		(100)	
Purchases of investment securities	**(288)**	(205)	**(3,097)**
Proceeds from sales of investment securities	**956**	498	**10,280**
Other – net	**69**	473	**742**
Net cash used in investing activities	**(1,908)**	(393)	**(20,516)**
Financing activities:			
Dividends paid to shareholders	**(1,177)**	(1,040)	**(12,656)**
Dividends paid to minority shareholders of consolidated subsidiaries	**(3)**	(276)	**(32)**
Payments for purchase of treasury stock	**(0)**	(760)	**(0)**
Other – net	**(22)**	(16)	**(237)**
Net cash used in financing activities	**(1,202)**	(2,092)	**(12,925)**
Foreign currency translation adjustments on cash and cash equivalents	**1,089**	(462)	**11,710**
Net (decrease) increase of cash and cash equivalents	**(1,538)**	1,519	**(16,538)**
Cash and cash equivalents at beginning of year	**14,736**	13,217	**158,452**
Cash and cash equivalents at end of year	**¥13,198**	¥14,736	**$141,914**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2013

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in 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.

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 2012 consolidated financial statements to conform to the classifications used in 2013.

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 ¥93 to $1, the approximate rate of exchange at February 28, 2013. 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 28, 2013 include the accounts of the Company and its 18 significant (19 in 2012) 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 also 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; and 5) exclusion of minority interests from net income, if contained in net income.

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 (12 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 (12 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.

Effective from the year ended February 28, 2013, the Company revised the recognition period of actuarial gain/loss and amortization period of prior-service period from 13 to 12 years, in line with a reduction in the average remaining years of service.

As a result of this change, operating income and income before income tax and minority interests for the year ended February 28, 2013 decreased by ¥66 million ($710 thousand), compared with the amount calculated by the previous method.

i. Asset Retirement Obligations

In March 2008, the ASBJ published 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.

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 Audit and Supervisory Board Members

Bonuses to directors and Audit and Supervisory Board Members 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 by recognizing 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 are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

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

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 statement of income.

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

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 28, 2013.

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

s. 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.

t. New Accounting Pronouncements

Accounting Standard for Retirement Benefits

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000 and the other related practical guidances, being followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, are recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) Treatment in the statement of income and the statement of comprehensive income (or the statement of income and comprehensive income)

The revised accounting standard would not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and the guidance are effective for the end of annual periods beginning on or after April 1, 2013 with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard from the end of the annual period beginning on March 1, 2014 and is in the process of measuring the effects of applying the revised accounting standard for the year ending February 28, 2015.

3. Marketable and Investment Securities

Marketable and investment securities at February 28, 2013 and February 29, 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Current:			
Corporate and other bonds	¥ 229	¥ 413	$ 2,462
Total	¥ 229	¥ 413	$ 2,462
Non-current:			
Equity securities	¥1,830	¥1,540	$19,678
Corporate and other bonds	453	433	4,871
Trust fund investment and other	43	36	462
Total	¥2,326	¥2,009	$25,011

The costs and aggregate fair values of securities classified as available-for-sale at February 28, 2013 and February 29, 2012 were as follows:

	Millions of yen			
2013	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	¥1,492	¥304	¥ 71	¥1,725
Corporate and other bonds	661	21		682
Trust fund investments and other	29	14		43

	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

	Thousands of U.S. dollars (Note 1)			
2013	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	$16,043	$3,269	$764	$18,548
Corporate and other bonds	7,107	226		7,333
Trust fund investments and other	312	150		462

Proceeds from sales of available-for-sale securities for the year ended February 28, 2013 and February 29, 2012 were ¥956 million ($10,280 thousand) and ¥581 million respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended February 28, 2013 were ¥525 million ($5,645 thousand) and ¥7 million ($75 thousand), and for the year ended February 29, 2012 were ¥15 million and ¥17 million, respectively.

4. Short-term Investments

Short-term investments at February 28, 2013 and February 29, 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Deposits over three-month period	¥790	¥905	$8,495
Total	¥790	¥905	$8,495

5. Inventories

Inventories at February 28, 2013 and February 29, 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Merchandise	**¥ 386**	¥ 345	**$ 4,151**
Finished products	**7,410**	6,693	**79,677**
Work in process	**2,311**	2,459	**24,849**
Raw materials and supplies	**1,291**	1,882	**13,882**
Total	**¥11,398**	¥11,379	**$122,559**

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

Short-term bank loans at February 28, 2013 and February 29, 2012 consisted of bank overdrafts. The annual interest rates applicable for the years ended February 28, 2013 and February 29, 2012 were 0.33% and 0.34%, respectively.

Long-term debt at February 28, 2013 and February 29, 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Lease obligations	**¥58**	¥57	**$623**
Less: current portion	**23**	18	**247**
Long-term debt, less current portion	**¥35**	¥39	**$376**

Annual maturities of long-term debt at February 28, 2013 were as follows:

Years ending February 28 or 29	Millions of yen	Thousands of U.S. dollars (Note 1)
2014	**¥23**	**$247**
2015	**20**	**215**
2016	**9**	**97**
2017	**4**	**43**
2018	**2**	**21**
Total	**¥58**	**$623**

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 28, 2013 and February 29, 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Projected benefit obligation	**¥(8,306)**	¥(8,227)	**$(89,312)**
Fair value of plan assets	**6,886**	6,545	**74,043**
Unrecognized actuarial loss	**1,565**	2,098	**16,828**
Unrecognized prior service cost	**(113)**	(140)	**(1,215)**
Net amount recognized	**¥ 32**	¥ 276	**$ 344**
Amounts recognized in the balance sheet consist of:			
Prepaid pension expense	**¥ 71**	¥ 309	**$ 764**
Liability for retirement benefits	**(39)**	(33)	**(420)**
Net amount recognized	**¥ 32**	¥ 276	**$ 344**

The components of net periodic benefit costs for the years ended February 28, 2013 and February 29, 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Service cost	¥ 364	¥ 324	$ 3,914
Interest cost	106	147	1,140
Expected return on plan assets	(164)	(172)	(1,764)
Recognized net actuarial loss	318	153	3,419
Amortization of prior service cost	(27)	(23)	(290)
Net periodic benefit costs	¥ 597	¥ 429	$ 6,419

Assumptions used for the years ended February 28, 2013 and February 29, 2012 were set forth as follows:

	2013	2012
Discount rate	1.3%	1.3%
Expected rate of return on plan assets	2.5%	2.5%
Recognition period of actuarial gain/loss	12 years	13 years
Amortization period of prior service cost	12 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. For companies if companies meet certain criteria such as (1) having the Board of Directors, (2) having independent auditors, (3) having the Audit and Supervisory Board, 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 as of February 28, 2013, were as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2011 Stock Option	8 directors 13 employees	126,000 shares	July 4, 2011	¥935	From July 1, 2013 to June 30, 2017
2012 Stock Option	6 directors 2 officers 14 employees	113,000 shares	July 2, 2012	¥827	From June 30, 2014 to June 29, 2018

The stock option activity was as follows:

	Shares	
	2011 Stock Option	2012 Stock Option
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		
Vested		
Exercised		
Canceled		
February 29, 2012 – Outstanding		
For the year ended February 28, 2013		
Non-vested		
February 29, 2012 – Outstanding	126,000	
Granted		**113,000**
Canceled		
Vested		
February 28, 2013 – Outstanding	**126,000**	**113,000**
Vested		
February 29, 2012 – Outstanding		
Vested		
Exercised		
Canceled		
February 28, 2013 – Outstanding		
Exercise price	¥935	¥827
Average stock price at exercise		
Fair value price at grant date	¥254	¥167

The assumptions used to measure fair value of 2012 Stock Options were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	39.06%
Estimated remaining outstanding period:	four years
Estimated dividend:	¥26.00 per share
Risk free interest rate:	0.142%

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 28, 2013 and February 29, 2012, 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 28, 2013 and February 29, 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Current:			
Deferred tax assets			
Inventories	**¥ 243**	¥ 221	**$ 2,613**
Accrued bonuses	**234**	262	**2,516**
Tax loss carryforwards	**71**	456	**763**
Unrealized profit on inventories	**45**	33	**484**
Allowance for doubtful receivables	**25**	28	**269**
Other – net	**83**	94	**893**
Less valuation allowance	**(460)**	(471)	**(4,946)**
Total	**¥ 241**	¥ 623	**$ 2,592**
Deferred tax liabilities			
Undistributed earnings of associated companies	**¥ 834**	¥ 632	**$ 8,968**
Tax-deductible inventory losses	**37**	39	**398**
Other – net	**36**	37	**387**
Total	**¥ 907**	¥ 708	**$ 9,753**
Net deferred tax liabilities	**¥ (666)**	¥ (85)	**$ (7,161)**
Non-Current:			
Deferred tax assets			
Tax loss carryforwards	**¥ 2,070**	¥ 1,915	**$ 22,258**
Depreciation	**201**	222	**2,161**
Write-down of investment securities	**165**	211	**1,774**
Impairment loss	**125**	314	**1,344**
Other – net	**269**	217	**2,893**
Less valuation allowance	**(2,649)**	(2,569)	**(28,484)**
Total	**¥ 181**	¥ 310	**$ 1,946**
Deferred tax liabilities			
Prepaid pension expense	**¥ 26**	¥ 120	**$ 279**
Property, plant and equipment	**20**	21	**215**
Other – net	**50**	23	**538**
Total	**¥ 96**	¥ 164	**$ 1,032**
Net deferred tax assets	**¥ 85**	¥ 146	**$ 914**

A reconciliation between the normal effective statutory tax rate for the years ended February 28, 2013 and February 29, 2012 and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2013	2012
Normal effective statutory tax rate	**39.8%**	39.8%
Effect of foreign tax rate differences	**(12.1)**	(9.1)
Undistributed earnings of associated companies	**8.4**	(5.9)
Tax exemption of associated companies	**(5.2)**	–
Valuation allowance	**4.4**	(11.6)
Loss on disposition of foreign currency translation adjustments	**–**	5.4
Other – net	**0.5**	3.6
Actual effective tax rate	**35.8%**	22.2%

11. Research and Development Costs

Research and development costs charged to income were ¥1,895 million ($20,376 thousand) and ¥1,807 million for the years ended February 28, 2013 and February 29, 2012, respectively.

12. Loss on Disaster and Insurance Income

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 for disposal of damaged assets, such as production facilities and inventories.

These assets were covered by insurance, and insurance benefit of ¥971 million ($10,441 thousand) was paid during the year ended February 28, 2013. Thus the Group recognized this insurance benefit as insurance income.

13. Leases

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

Lease payments under financial leases were ¥16 million ($172 thousand) and ¥24 million for the years ended February 28, 2013 and February 29, 2012, 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, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee and 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)
	2013	2012	**2013**
Acquisition cost	**¥38**	¥95	**$408**
Accumulated depreciation	**35**	77	**376**
Net leased property	**¥ 3**	¥18	**$ 32**

The pro forma depreciation expense computed by the straight-line method was ¥16 million ($172 thousand) and ¥24 million for the years ended February 28, 2013 and February 29, 2012, respectively.

Obligations under financial leases at February 28, 2013 and February 29, 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within one year	¥3	¥16	$32
Due after one year	–	2	–
Total	¥3	¥18	$32

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 28, 2013 and February 29, 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due within one year	¥ 78	¥ 75	$ 839
Due after one year	227	273	2,441
Total	¥305	¥348	$3,280

14. Financial Instruments and Related Disclosures

(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.

(a) Fair Value of Financial Instruments

	Millions of yen			Thousands of U.S. dollars (Note 1)		
February 28, 2013	Carrying amount	Fair value	Unrealized gain/loss	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	**¥13,198**	**¥13,198**		**$141,914**	**$141,914**	
Marketable and investment securities	**2,450**	**2,450**		**26,344**	**26,344**	
Short-term investments	**790**	**790**		**8,495**	**8,495**	
Trade receivables	**9,149**	**9,149**		**98,377**	**98,377**	
Total	**¥25,587**	**¥25,587**		**$275,130**	**$275,130**	
Trade payables	**¥ 5,280**	**¥ 5,280**		**$ 56,774**	**$ 56,774**	
Short-term bank loans	**2,000**	**2,000**		**21,505**	**21,505**	
Total	**¥ 7,280**	**¥ 7,280**		**$ 78,279**	**$ 78,279**	
Derivatives	**¥ (295)**	**¥ (295)**		**$ (3,172)**	**$ (3,172)**	

	Millions of yen		
February 29, 2012	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥14,736	¥14,736	
Marketable and investment securities	2,295	2,295	
Short-term investments	905	905	
Trade receivables	9,849	9,849	
Total	¥27,785	¥27,785	
Trade payables	¥ 7,554	¥ 7,554	
Short-term bank loans	2,000	2,000	
Total	¥ 9,554	¥ 9,554	
Derivatives	¥ (97)	¥ (97)	

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 one 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)
	2013	2012	**2013**
Investments in equity instruments that do not have a quoted market price in an active market	**¥105**	¥128	**$1,129**
Investments in unconsolidated subsidiaries and associated companies	**32**	32	**344**
Total	**¥137**	¥160	**$1,473**

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

	Millions of yen			
February 28, 2013	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	**¥13,198**			
Marketable and investment securities	**229**	**¥ 400**		
Short-term investments	**790**			
Trade receivables	**8,531**	**618**		
Total	**¥22,748**	**¥1,018**		

	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		

	Thousands of U.S. dollars (Note 1)			
February 28, 2013	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	**$141,914**			
Marketable and investment securities	**2,462**	**$ 4,301**		
Short-term investments	**8,495**			
Trade receivables	**91,732**	**6,645**		
Total	**$244,603**	**$10,946**		

15. Derivatives

Derivative transactions to which hedge accounting is not applied

	Millions of yen			
At February 28, 2013	Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Receivables:	**¥3,381**		**¥(233)**	**¥(233)**
Payables:	**1,396**		**(62)**	**(62)**
Total				**¥(295)**

	Millions of yen			
At February 29, 2012	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)

	Thousands of U.S. dollars (Note 1)			
At February 28, 2013	Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Receivables:	**$36,355**		**$(2,506)**	**$(2,505)**
Payables:	**15,011**		**(667)**	**(667)**
Total				**$(3,172)**

16. Comprehensive Income

The components of other comprehensive income for the year ended February 28, 2013 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2013	**2013**
Unrealized gain (loss) on available-for-sale securities:		
Gains arising during the year	**¥ 240**	**$ 2,580**
Reclassification adjustments to profit or loss	**1**	**11**
Amount before income tax effect	**241**	**2,591**
Income tax effect	**(15)**	**(161)**
Total	**¥ 226**	**$ 2,430**
Foreign currency translation adjustments:		
Adjustments arising during the year	**¥2,272**	**$24,430**
Total other comprehensive income	**¥2,498**	**$26,860**

The corresponding information for the year ended February 29, 2012 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

17. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share (EPS) for the years ended February 28, 2013 and February 29, 2012 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 28, 2013				
Basic EPS				
Net income attributable to common shareholders	**¥2,300**	**42,076**	**¥54.66**	**$0.59**
Effect of Dilutive Securities				
Stock acquisition rights				
Diluted EPS				
Net income for computation	**¥2,300**	**42,076**		
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		

In June 2010, the ASBJ issued revised ASBJ Statement No. 2 (revised 2006) Accounting Standard for Earnings Per Share, ASBJ Guidance No. 4 (revised 2006) Guidance on Accounting Standard for Earnings Per Share, and ASBJ PITF No. 9 (revised 2006) Practical Solution on Accounting for Earnings Per Share, which were effective for fiscal years beginning on or after April 1, 2011.

Effective March 1, 2012, the Company changed its method of calculating diluted earnings per share from not including the fair value of services to the assumed proceeds from the exercise of dilutive stock options with service conditions to including such fair value.

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 28, 2013.

18. Segment Information

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

1. Description of reportable segments

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

	Millions of yen						
	Reportable Segment						
2013	Special Products	Components	Machine Tools	Precision Products	Total	Reconcilia-tions	Consolidated
Sales to external customers	**¥7,806**	**¥3,233**	**¥22,897**	**¥3,922**	**¥37,858**		**¥37,858**
Intersegment sales or transfer							
Total	**7,806**	**3,233**	**22,897**	**3,922**	**37,858**		**37,858**
Segment profit (loss)	**¥ 257**	**¥ (191)**	**¥ 3,121**	**¥ 356**	**¥ 3,543**	**¥(1,963)**	**¥ 1,580**
Segment assets	**¥6,279**	**¥2,020**	**¥31,319**	**¥7,017**	**¥46,635**	**¥ 5,929**	**¥52,564**
Other items:							
Depreciation	**273**	**34**	**814**	**469**	**1,590**	**153**	**1,743**
Increase in property, plant and equipment and intangible assets	**159**	**27**	**2,697**	**1,328**	**4,211**	**162**	**4,373**

	Millions of yen						
	Reportable Segment						
2012	Special Products	Components	Machine Tools	Precision Products	Total	Reconcilia-tions	Consolidated
Sales to external customers	¥7,807	¥2,944	¥26,640	¥4,263	¥41,654		¥41,654
Intersegment sales or transfer							
Total	7,807	2,944	26,640	4,263	41,654		41,654
Segment profit (loss)	¥ 581	¥ (955)	¥ 5,366	¥ 762	¥ 5,754	¥ (1,801)	¥ 3,953
Segment assets	¥6,179	¥2,963	¥28,689	¥5,641	¥43,472	¥ 8,453	¥51,925
Other items:							
Depreciation	223	95	702	455	1,475	132	1,607
Increase in property, plant and equipment and intangible assets	215	51	754	735	1,755	285	2,040

	Thousands of U.S. dollars (Note 1)						
	Reportable Segment						
2013	Special Products	Components	Machine Tools	Precision Products	Total	Reconcilia-tions	Consolidated
Sales to external customers	**$83,936**	**$34,763**	**$246,204**	**$42,172**	**$407,075**		**$407,075**
Intersegment sales or transfer							
Total	**83,936**	**34,763**	**246,204**	**42,172**	**407,075**		**407,075**
Segment profit (loss)	**$ 2,764**	**$ (2,054)**	**$ 33,559**	**$ 3,828**	**$ 38,097**	**$(21,108)**	**$ 16,989**
Segment assets	**$67,516**	**$21,720**	**$336,763**	**$75,452**	**$501,451**	**$ 63,753**	**$565,204**
Other items:							
Depreciation	**2,935**	**366**	**8,753**	**5,043**	**17,097**	**1,645**	**18,742**
Increase in property, plant and equipment and intangible assets	**1,710**	**290**	**29,000**	**14,280**	**45,280**	**1,742**	**47,022**

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 agrees with operating profit on the accompanying consolidated statement of income.

Related Information

Related Information by geographical area at February 28, 2013 and February 29, 2012 consisted of the following:

(1) Net Sales

	Millions of yen					
2013	Japan	USA	China	Germany	Others	Total
	¥8,192	**¥8,765**	**¥4,242**	**¥3,875**	**¥12,784**	**¥37,858**

	Millions of yen					
2012	Japan	USA	China	Germany	Others	Total
	¥8,485	¥8,830	¥3,777	¥5,873	¥14,689	¥41,654

	Thousands of U.S. Dollars (Note 1)					
2013	Japan	USA	China	Germany	Others	Total
	$88,086	**$94,247**	**$45,613**	**$41,667**	**$137,462**	**$407,075**

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

(Changes in presentation)

Effective for the year ended February 28, 2013, sales to China which were included in "Others" prior to March 1, 2012, are disclosed separately because the amount exceeded 10% of consolidated sales.

To reflect this change in presentation, the information about sales for the year ended February 29, 2012, has been reclassified.

(2) Property, Plant and Equipment

	Millions of yen				
2013	Japan	Thailand	China	Others	Total
	¥7,245	**¥3,373**	**¥1,973**	**¥885**	**¥13,476**

	Millions of yen				
2012	Japan	Thailand	China	Others	Total
	¥7,384	¥443	¥1,618	¥844	¥10,289

	Thousands of U.S. Dollars (Note 1)				
2013	Japan	Thailand	China	Others	Total
	$77,903	**$36,269**	**$21,215**	**$9,516**	**$144,903**

(Changes in presentation)

Effective for the year ended February 28, 2013, property, plant and equipment located in Thailand which were included in "Others" prior to March 1, 2012, are disclosed separately because the amount exceeded 10% of consolidated property, plant and equipment.

To reflect this change in presentation, the information about property, plant and equipment for the year ended February 29, 2012, has been reclassified.

19. Subsequent Event

The following appropriation of retained earnings at February 28, 2013 was to be approved at the Company's shareholders' meeting held on May 23, 2013:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥15 ($0.161) per share	**¥631**	**$6,785**

Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Star Micronics Co., Ltd. and consolidated subsidiaries as of February 28, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 28, 2013, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in 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 13, 2013

Member of
Deloitte Touche Tohmatsu Limited

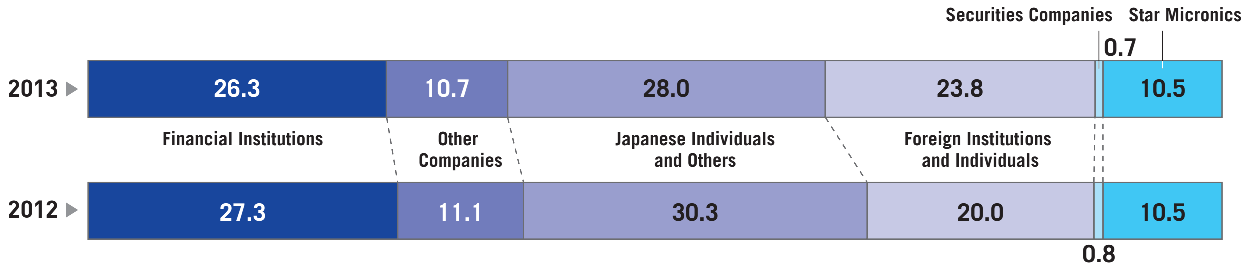
Stock Information

as of February 28, 2013

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		10,029		

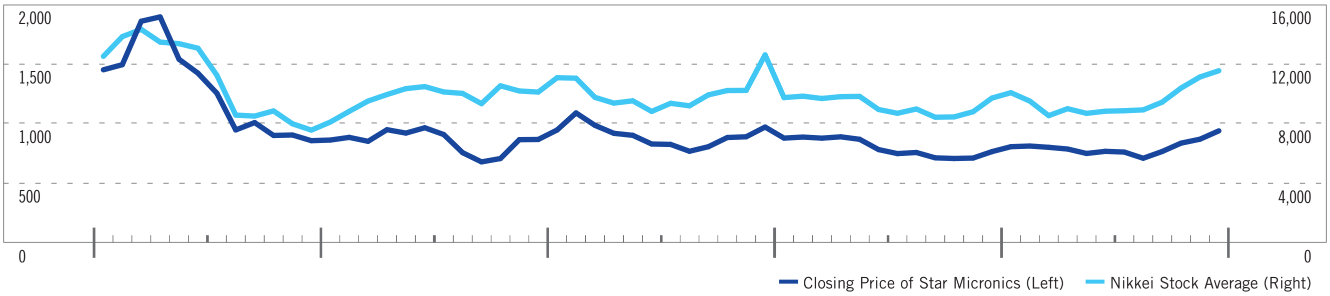
COMPOSITION OF SHAREHOLDERS

(%)



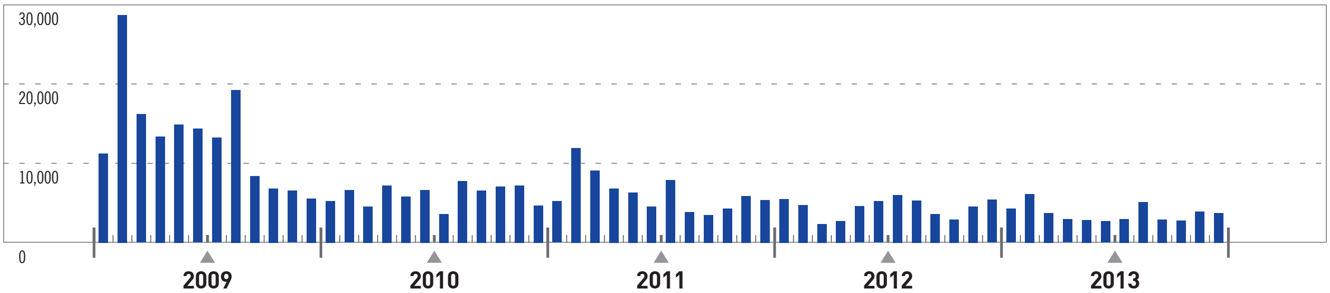
STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)

(Yen) (Yen)



TRADING VOLUME

(Thousands of shares)



(Fiscal years ended the last day of February)

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	2009	2010	2011	2012	2013
At year-end	830	878	929	807	943
High	2,175	1,020	1,182	958	988
Low	773	595	702	657	647

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