Toward a More Dynamic Business

ANNUAL REPORT 2016 (PDF Version)

For the year ended February 29, 2016

STAR MICRONICS CO., LTD.

Profile

Since its establishment in 1950, Star Micronics Co., Ltd. has worked diligently to "generate the greatest impact from the least materials." In order to achieve its aspirations, the Company has continued to deliver a steady stream of high-added-value products based on its core technologies of small-scale precision processing and assembly. Currently, Star Micronics is engaged in three businesses: special products, mainly point-of-sale (POS) printers; machine tools, mainly CNC automatic lathes; and precision products, including wristwatch, automobile, and other related components.

From each of the sales and manufacturing perspectives, the Company is also actively engaged in global business development. Building on a current ratio of overseas sales to all sales of 84% and a ratio of overseas production to all production of 80%, Star Micronics will leverage its core technologies to further expand its business.

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.

Medium-term Strategy

We aim to ensure profitability and raise growth opportunities, and steadily make sustained returns to shareholders, by optimizing the allocation of business resources and by restructuring our businesses.

Ensure Profitability

- Capture high shares in global niche markets
- Concentrate business resources on highly profitable products and markets
- Create high-value-added products

Raise Growth Opportunities

- Strengthen our sales organization in emerging markets
- Build an optimal production system by utilizing overseas production bases
- Implement business alliances and M&As to strengthen our core competencies

Maintain Soundness

- Equity ratio: 70-75%
- Ratio of net cash (to total assets): 20-25%
- Enhancement of shareholders' returns
  - Dividend payout ratio: 40% or more
  - Dividend on equity: 4.5% or more

Medium-term Targets (2019/2 targets)

Net Sales	¥60.0 billion
Operating Income	¥8.0 billion
Net Income	¥6.0 billion
Return on Equity (ROE)	11% or more
Earnings per Share (EPS)	¥150 or more
Shareholders' Returns	Consolidated dividend payout ratio 40% or more Dividend on equity 4.5% or more

Financial Highlights

Financial Highlights | Related Information by Geographical Region

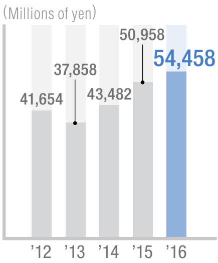
Star Micronics Co., Ltd. and Consolidated Subsidiaries
For the years ended February 2014, 2015 and 2016

	Millions of yen			Change (%)	Thousands of U.S. dollars
	2014	2015	2016	2016/2015	2016
For the year :					
Net sales	¥43,482	¥50,958	¥54,458	6.9	$477,702
Operating income	2,606	5,477	5,735	4.7	50,307
Net income	1,143	4,696	3,721	-20.8	32,640
Return on sales	2.6%	9.2%	6.8%		
Capital expenditures	1,493	2,105	2,275	8.1	19,956
Depreciation and amortization	1,885	1,924	2,274	18.2	19,947
At year-end :					
Total assets	59,303	70,261	67,828	-3.5	594,982
Total equity	45,698	51,903	50,200	-3.3	440,351
Equity ratio	75.5%	72.4%	72.7%		
	Yen			Change (%)	U.S. dollars
Per share :					
Basic net income	¥27.17	¥111.36	¥87.98	-21.0	$0.77
Diluted net income	27.14	111.05	87.69	-21.0	0.77
Cash dividends applicable to the year	34.00	44.00	46.00	4.5	0.40
Stock information :					
Common shares issued	47,033,234	47,033,234	47,033,234		
Number of shareholders	8,562	11,123	10,097		

Note : The rate of ¥114 to US$1, prevailing on February 29, 2016, has been used for translation into U.S. dollar amounts.

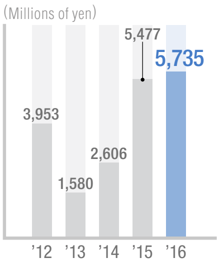
NET SALES

(Millions of yen)



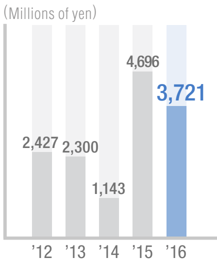
OPERATING INCOME

(Millions of yen)



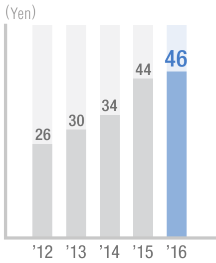
NET INCOME

(Millions of yen)



CASH DIVIDENDS APPLICABLE TO THE YEAR

(Yen)



Related Information by Geographical Region

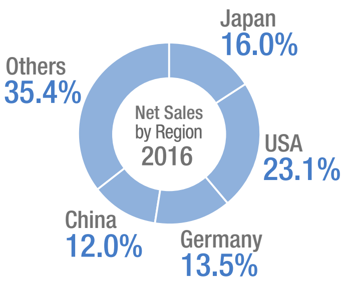
Financial Highlights | **Related Information by Geographical Region**

Star Micronics Co., Ltd. and Consolidated Subsidiaries
For the years ended February 2014, 2015 and 2016

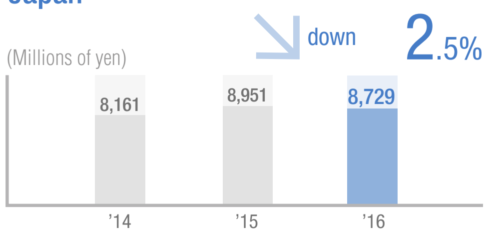
Net Sales by Geographical Region

	Millions of yen			Change (%)	Thousands of U.S. dollars
	2014	2015	2016	2016/2015	2016
Japan	¥ 8,161	¥ 8,951	¥ 8,729	-2.5	$ 76,570
USA	10,842	12,123	12,566	3.7	110,228
Germany	4,772	6,629	7,339	10.7	64,377
China	4,390	5,320	6,543	23.0	57,395
Others	15,317	17,935	19,281	7.5	169,132
Total	43,482	50,958	54,458	6.9	477,702

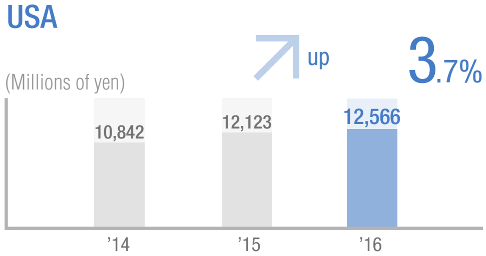
Note : The rate of ¥114 to US$1, prevailing on February 29, 2016, has been used for translation into U.S. dollar amounts.



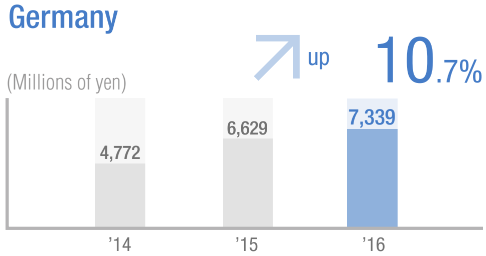
Japan



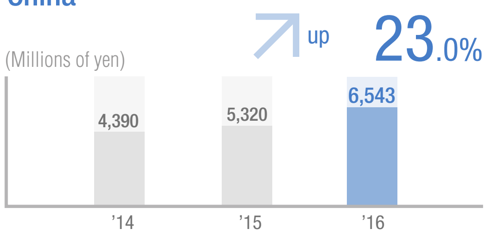
USA



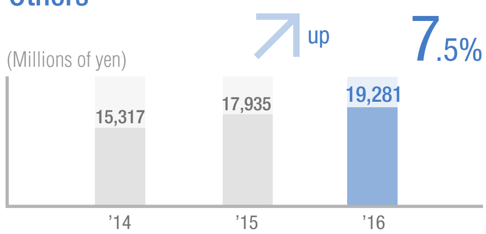
Germany



China



Others



To Our Shareholders

An Ever-Evolving Management

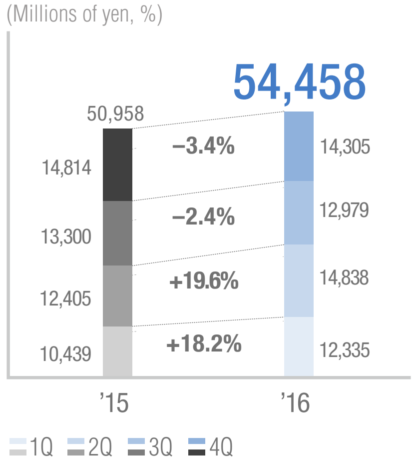
Hajime Sato
President and CEO

In fiscal 2016, the year ended February 29, 2016, the Star Micronics Group achieved a third consecutive year of increased net sales and operating income. This was largely attributable to firm trends in the Machine Tools Segment. In the year ending February 28, 2017, we will continue to follow our standing management policy and not merely pursue expansion of our business size, but promote growth strategies with an emphasis on profitability in the global niche markets that we serve. Guided by this policy, we will work vigorously to advance our business activities going forward.

01 Review of Business Performance

On the back of firm business performance trends, the Star Micronics Group reported a third consecutive year of net sales and operating income growth in fiscal 2016. In addition to an increase in Machine Tools Segment sales, this growth reflected the favorable effects of depreciation in the value of the yen.

NET SALES
(Millions of yen, %)



In the Machine Tools Segment, which continues to underpin the Group's overall performance, sales increased 10.3% compared with the previous fiscal year. This was mainly due to firm trends in the mainstay European and U.S. markets, as well as growth in Asia and especially China. Buoyed by successful efforts to develop strong ties of trust with leading local sales agents, and to provide users with high-quality services as a part of our overall sales strategy, we were able to generate sound business results despite signs of a slowdown in the pace of economic growth in the mainstay China market.

Sales in the Special Products Segment, on the other hand, edged down 1.5% compared with the previous fiscal year. In mobile point-of-sale (mPOS)* printers, which were expected to enjoy substantial growth, sales failed to reach the initially projected level owing mainly to the impact of inventory adjustments by sales agents in the U.S.

In the Precision Products Segment, sales grew 2.1% compared with the previous fiscal year. This was largely due to the increase in sales of wristwatch components on the back of robust wristwatch sales.

After taking into consideration each of the aforementioned, net sales climbed 6.9% compared with the previous fiscal year, to ¥54,458 million in fiscal 2016. From a profit perspective, operating income increased 4.7% year on year, to ¥5,735 million. Accounting for the foreign exchange loss of ¥881 million recorded as an other expense and other factors, net income came to ¥3,721 million, down 20.8% compared with the previous fiscal year.

* mPOS systems that employ tablet terminals and other mobile devices are distinguished by their easy, low-cost installation compared with conventional PC-based and other designated POS systems.

02 Outlook for Fiscal 2017

In fiscal 2017, the fiscal year ending February 28, 2017, the global economy as a whole is forecast to remain shrouded in uncertainty. While the U.S. is expected to experience firm growth, there are concerns that worldwide economic conditions will be impacted by such factors as a slowdown in the pace of economic growth in emerging markets including China.

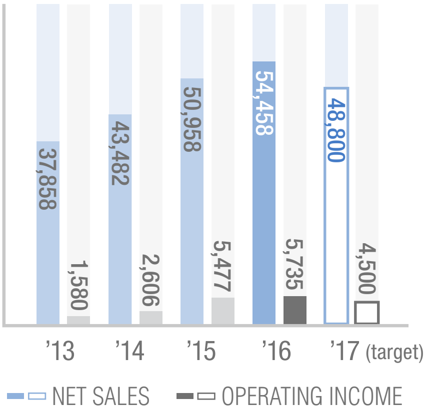
Under these circumstances, in consolidated business performance for the coming fiscal year, the Special Products Segment is expected to continue to mainly show increased sales of mPOS printers. Sales are projected to decline in the Machine Tools Segment. This is largely due to a slump in orders from the Asian market, which enjoyed substantial growth in the fiscal year under review, in addition to the mainstay European market. While trends in wristwatch components are forecast to remain firm, sales of non-wristwatch components are expected to decline in the Precision Products Segment.

As a result, the Group is forecasting net sales of ¥48,800 million, a decrease of 10.4% year on year. On the earnings front, the Group forecasts operating income of ¥4,500 million, a decrease of 21.5% year on year. Profit attributable to owners of the parent is projected to increase substantially, by 12.9% year on year, to ¥4,200 million.

03 The Star Micronics Group's Business Strategies

NET SALES AND OPERATING INCOME

(Millions of yen)



The mainstay Machine Tools Segment periodically confronts harsh operating conditions due to the effects of the demand cycle. Rather than an impediment to continued growth, we see this downturn as an opportunity to strengthen our business platform. Moving forward, we will therefore actively allocate business resources to each business segment in an effort to further enhance our corporate value.

■ Machine Tools Segment

In the Machine Tools Segment, we will cultivate markets in China and the rest of Asia, where the potential for growth is high, while at the same time maintaining a firm foothold in the core European and U.S. markets. In addition to the growth in medical-related and other sales in the traditional mainstay U.S. market, activities have also expanded into Asia in recent years.

Moreover, we are looking to adopt new design and production methods in order to improve the speed of development and shorten production lead times. Working to expand business domains, we will also take steps to release a series of fixed headstock automatic lathes. The use of this type of automatic lathe is becoming increasingly widespread in the processing of automotive components. Looking ahead, we will endeavor to cultivate new markets in this field.

Special Products Segment

The Star Micronics Group is securing a substantial share of the mPOS printer market, especially in the U.S. and Japan, where demand continues to expand. In order to reinforce our standing in the market, we are placing considerable emphasis on the development of new products. As one example, we released mPOP, an all-in-one package that combines both a printer and cash drawer in a single configuration, in September 2015. Since its release, mPOP has continued to enjoy wide-ranging acclaim and is expected to see an increase sales .

In Japan, a growing number of small- and medium-sized stores are expected to adopt mPOS systems as a part of their day-to-day operations. This is mainly due to improvements in conditions relating to credit card use in the lead-up to the Tokyo 2020 Olympic and Paralympic Games. At the same time, the demand for mPOS systems is also projected to gradually expand in Europe and Asia. Accounting for each of these factors, we anticipate a further upswing in mPOS system sales.

Turning to areas outside the mPOS system field, demand for dot-matrix printers that can accommodate copy paper from emerging markets including Asia and South America that are looking to introduce tax collection systems is expected to rise.

Precision Products Segment

In our pursuit of growth in the Precision Products Segment, we will focus on expanding sales of high-value-added products in the non-wristwatch component field. We will pay particular attention to the many types of automotive-related components, which when adopted contribute to stable, long-term supply. While operations commenced in March 2016 at a new factory of our manufacturing subsidiary in Sapporo in response to burgeoning wristwatch component demand, plans are in place to manufacture automotive-related components at this facility in the future. Actively harnessing our network of five production bases in Japan and overseas, we will work diligently to capture new customers and expand orders of new products.

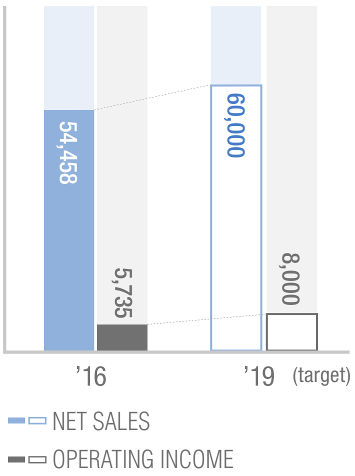
04 Building a New Business Model that Utilizes Cloud Computing

The Star Micronics Group is looking to build a new business model that utilizes cloud computing. In February 2015, the Company established a new subsidiary in the U.S. to spearhead its efforts. This new subsidiary is engaged in the planning, rollout, and management of cloud computing-based electronic receipts and other services. While currently working through a preparatory phase, we are projecting sales of around ¥1.0 billion in three years. Looking further ahead, the Star Micronics Group will explore business opportunities for cloud computing-based services that enable connected Internet of Things (IoT) devices to reach their full potential in areas outside the Special Products Segment.

05 Enhancing Corporate and Shareholder Value

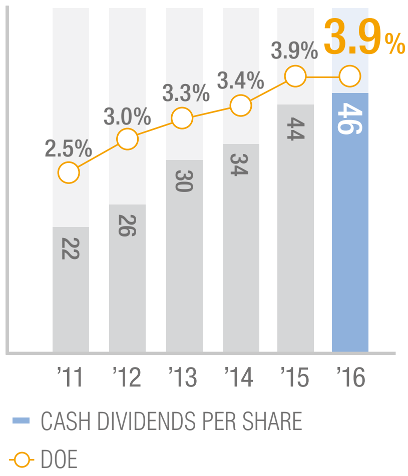
MEDIUM-TERM TARGETS

(Millions of yen)



CASH DIVIDENDS PER SHARE AND DOE

(Yen, %)



•Corporate Governance

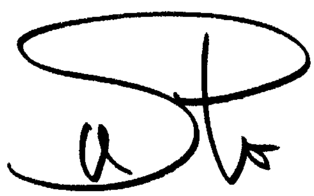
Star Micronics transitioned to a company with an Audit and Supervisory Committee in order to further strengthen the supervisory functions of the Board of Directors while upgrading corporate governance. In conjunction with this transition, the Company has decided to set the number of internal directors including the president at three and to appoint four outside directors including directors who serve as Audit and Supervisory Committee members. In this manner, outside directors make up a majority of the Board of Directors. Based on each of the aforementioned, the Company has taken steps to further clarify the supervisory and executive roles of management. This initiative is aimed at increasing the speed at which business strategies are implemented.

•Capital Policy

Turning to the capital policy of the Star Micronics Group, the Company places the utmost emphasis on returning profits to shareholders. In carrying out this policy, we take into consideration dividend on equity (DOE) while targeting a dividend payout ratio of at least 40%. Amid the growing demand for capital efficiency and adequate returns to shareholders, the Star Micronics Group will maintain an eye on increasing the efficiency of its capital by promoting business investment, expanding profits, and maintaining a sound financial position while at the same time increasing the payment of dividends to shareholders. With this in mind, the Group will give due consideration to returning profits to shareholders by purchasing its own stock and streamlining shareholders' equity.

Against the backdrop of a harsh operating environment, the Star Micronics Group will work in unison to vigorously improve its business and management while enhancing its corporate value.

As we work toward achieving our established goals, we kindly request your continued support and understanding.

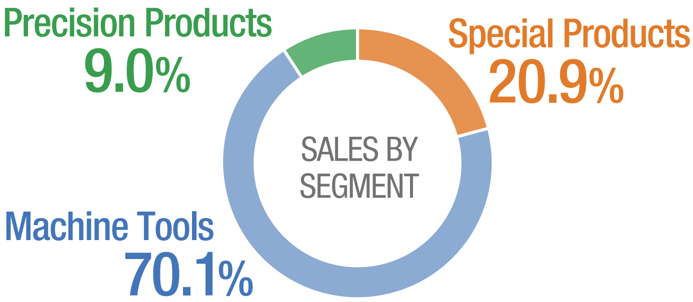


May 2016

Hajime Sato

President and CEO

At a Glance by Segment



Special Products

NET SALES ¥11,381 million

Point-of-sale (POS) printers used to issue receipts and for other purposes at places such as department stores, supermarkets and restaurants are the main products in the Special Products Segment. The Company maintains a product lineup that harnesses the distinctive features of both thermal and dot matrix printers. In recent years, demand for mobile POS (mPOS) printers that are compatible with tablet terminals, smartphones, and other devices has experienced a steady increase.

▸ Special Products

Machine Tools

NET SALES ¥38,150 million

In the Machine Tools Segment, Star Micronics' Swiss-Type CNC Automatic Lathes enjoy high market shares globally. In addition to its flagship ST series model, equipped with a 3-turret-type tool post, the Star Micronics Group offers such key products as the SV series, ideal for the high-precision, complex machining required in the manufacture of medical and other components, the SW series, which boasts unprecedented processing speed, the SR series, which features outstanding complex machining and productivity, and the SB series, which delivers superior cost performance.

▸ Machine Tools

Precision Products

NET SALES ¥4,927 million

The strength of this segment is that we have integrated the production of precision products from the machining stage to the plating stage. In the wristwatch components machining field, we hold a share as one of Japan's leading machining processors of precision components. Currently in the non-wristwatch components field (automotive, air conditioning, medical, and other components) business is expanding.

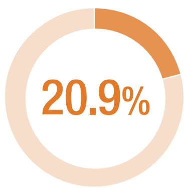
▸ Precision Products

Special Products

In the period under review, revenues declined in the Special Products Segment as a whole. While sales of mPOS printers were held to a slight increase in the U.S. market because of the negative impact of inventory adjustments by sales agents, this overall downturn was largely due to the drop in revenues in Asia and Japan. Going forward, revenues are projected to increase in the fiscal year ending February 28, 2017. This mainly reflects the forecast recovery in sales in the mainstay U.S. market.

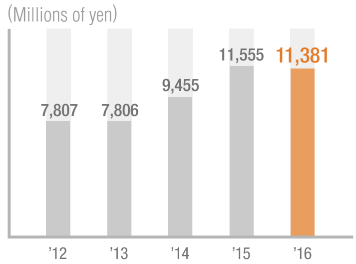
SPECIAL PRODUCTS

SALES BY SEGMENT



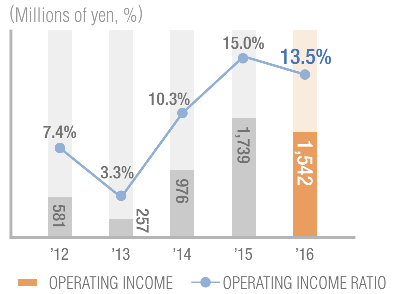
NET SALES

(Millions of yen)



OPERATING INCOME & OPERATING INCOME RATIO

(Millions of yen, %)

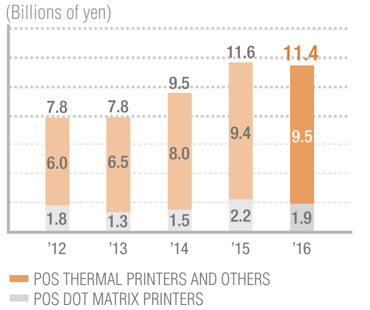


Business Environment and Results in Fiscal 2016

In this segment, Star Micronics is engaged in the global sale of mainly POS printers. In addition to conventional products that communicate with POS terminals or PCs, demand for mPOS printers that utilize mobile devices including tablet terminals has enjoyed a steady increase in recent years.

SALES IN THE SPECIAL PRODUCTS SEGMENT

(Billions of yen)



Reflecting the impact of inventory adjustments by sales agents, mPOS printer growth in the U.S. market fell short of initial expectations, with sales held to a slight year-on-year increase. Buffeted by the sluggish pace of recovery in the European market, sales across this market were essentially unchanged from the previous period. Owing to such factors as the economic slowdown in China as well as weak sales volume growth, results in Asia also declined. On the domestic front, sales in Japan were down. This was mainly due to the absence of large-scale orders.

Taking into consideration each of aforementioned, Star Micronics reported a downturn in sales and profits. Segment sales decreased 1.5% compared with the previous fiscal year to ¥11,381 million (US$99,834 thousand). Operating income also declined 11.3% year on year to ¥1,542 million (US$13,526 thousand) owing largely to the impact of ¥203 million (US$1,781 thousand) in expenses for new business development and other factors in connection with cloud computing services.

Outlook for Fiscal 2017 and Business Strategies

With signs that a round of inventory adjustments has come to an end in the U.S. market, overall results in the Special Products Segment are expected to improve mainly on the back of mPOS printer growth. Buoyed by the wide-ranging acclaim that mPOP has enjoyed since its release in September 2015, we expect to expand sales of this all-in-one package that combines both a printer and cash drawer in a single configuration. Meanwhile, we are witnessing the spirited introduction of dot-matrix printers for tax collection use in emerging and other markets.

Under these circumstances, segment sales are forecast to reach ¥12,360 million, up 8.6% compared with the fiscal year under review. From a profit perspective, operating income is anticipated to come in at ¥1,670 million, an increase of 8.3% year on year.

POS printer
TSP650 II

Sales Volume of POS Printers by Region

(Thousands of units)

	2015	2016	Change
The Americas	279	262	-6.1%
Europe	132	131	-0.8%
Asia	104	84	-19.2%
Japan	52	44	-15.4%
Total	567	520	-8.3%

More Dynamic Business

The New mPOP Enjoying Wide-Ranging Acclaim

In the Special Products Segment, mPOS printer sales have exhibited robust growth in recent years. Of particular note is the groundbreaking new product, mPOP. Released in September 2015, this addition to the segment's lineup combines the functions of both an mPOS printer and cash drawer in an all-in-one package. Smaller in size than conventional cash drawers that use PC-POS systems and aesthetically appealing, mPOP is ideal for beauty salons, cafes, apparel boutiques, and other small- to medium-sized retail stores.

mPOP offers a dual Bluetooth and USB interface that allows communication with such host devices as tablet terminals. Four additional USB ports also facilitate charging and expanded use with peripheral devices. Wiring is consolidated into a single power cable that ensures a clean and simple design. Boasting a de-curling function, mPOP printers help to avoid the issue of curled receipts.

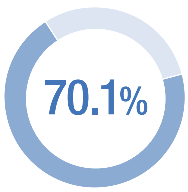
In addition to Japan, Star Micronics will promote sales in the U.S., Europe, and Asia. Plans are in place to achieve global sales of 170,000 units by the fiscal year ending February 28, 2019.

Machine Tools

Sales in the medical equipment-related sector were firm in the U.S. Results in the automotive-related sectors of both Europe and Asia were also steady. Taking into account these factors, revenues in the Machine Tools Segment increased compared with the previous fiscal year. In contrast, orders began to weaken from the second half of the fiscal year under review. As a result, sales are projected to decline in fiscal 2017.

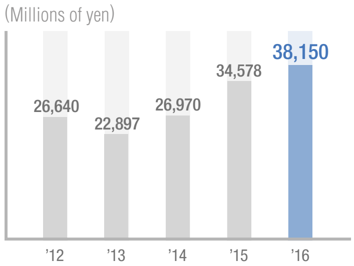
MACHINE TOOLS

SALES BY SEGMENT



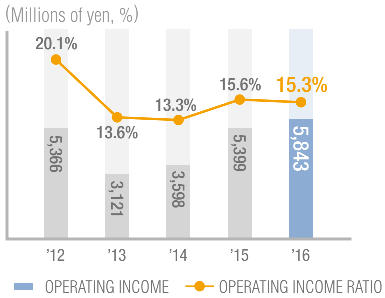
NET SALES

(Millions of yen)



OPERATING INCOME & OPERATING INCOME RATIO

(Millions of yen, %)

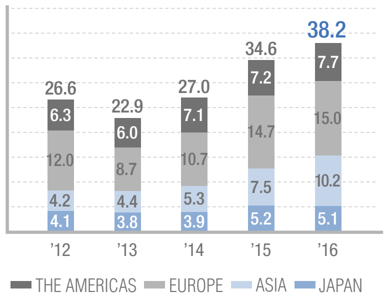


Business Environment and Results in Fiscal 2016

Sales of mainstay CNC automatic lathes to the medical equipment-related sector in the U.S. were firm. Coupled with the positive flow-on effects of the weak yen, results were up year on year. In Europe, sales increased slightly on the back of steady trends in the automotive-related and other sectors. Sales grew significantly in the Asian market, which was largely attributable to strong trends in the automotive-related sector, mainly in East Asia. In particular, the Star Micronics Group was able to substantially expand its market share in China thanks to successful efforts aimed at building strong ties of trust with leading sales agents. In Japan, sales saw a slight decline. This in part reflected the downturn in demand following the end of a round of government subsidies over the second half.

MACHINE TOOLS SEGMENT SALES BY GEOGRAPHICAL REGION

(Billions of yen)



Accounting for each of these factors, sales in the Machine Tools Segment climbed 10.3% compared with the previous fiscal year to ¥38,150 million (US$334,649 thousand). Operating income also improved 8.2% year on year to ¥5,843 million (US$51,254 thousand).

Outlook for Fiscal 2017 and Business Strategies

Sales in the Machine Tools Segment are expected to decline in the fiscal year ending February 28, 2017. This decline is mainly attributable to the forecast slump in orders from the Asian market, which enjoyed substantial growth in the fiscal year under review, in addition to the mainstay European market. As a result, sales are projected to decrease 17.1% compared with the fiscal year ended February 29, 2016 to ¥31,640 million. Operating income is forecast to drop 24.4% year on year to ¥4,420 million.

Despite this harsh operating environment, the Star Micronics Group will take steps to further solidify its business platform. In specific terms, energies will be directed toward cultivating new markets by introducing new products including fixed headstock automatic lathes while accelerating the pace of development and shortening production lead-times by adopting new design and production methods.

CNC Swiss-Type
Automatic Lathe ST-38

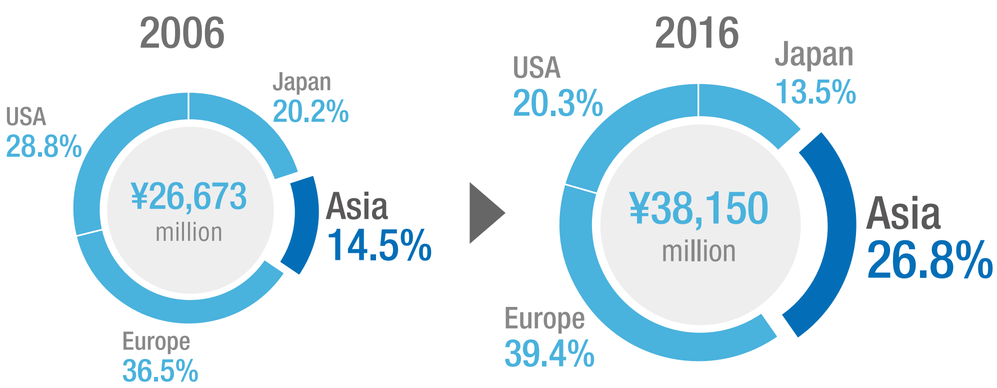
More Dynamic Business

The Asian market is taking up an increasing share of total sales in the Machine Tools Segment. This largely reflects the continued shift of production bases to Asia by users in Europe and the U.S., who had previously accounted for a large portion of this segment's sales. As a result, sales have continued to expand in Asia contributing to a change in the composition of segment sales by geographic region.

Moreover, in addition to the continued sale of low-end products, demand for mid-range products is also exhibiting strong growth.

In particular, results in the automotive-related sector in Asia have enjoyed a substantial upswing. The volume of sales are three times higher than the level recorded in the fiscal year ended February 28, 2014. Complementing this favorable trend, the Group's markets are showing signs of expansion. For example, sales to the medical equipment-related sector, which has historically centered on the U.S., are exhibiting steady growth.

Composition of Machine Tool Sales

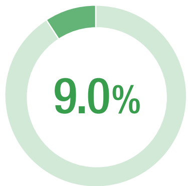


Precision Products

Sales of wristwatch components increased due to strong sales to wristwatch makers. Sales of non-wristwatch components, on the other hand, declined slightly. While trends in wristwatch components are forecast to remain firm, sales of non-wristwatch components are expected to decline in the fiscal year ending February 28, 2017.

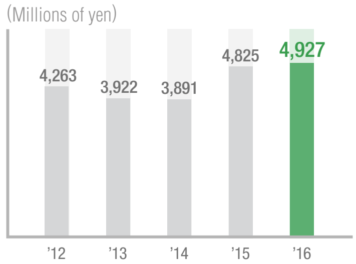
PRECISION PRODUCTS

SALES BY SEGMENT



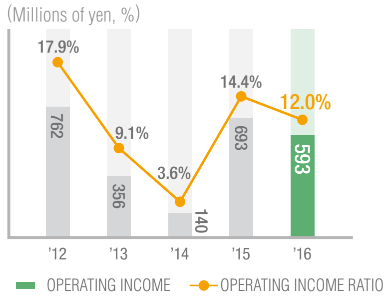
NET SALES

(Millions of yen)



OPERATING INCOME & OPERATING INCOME RATIO

(Millions of yen, %)



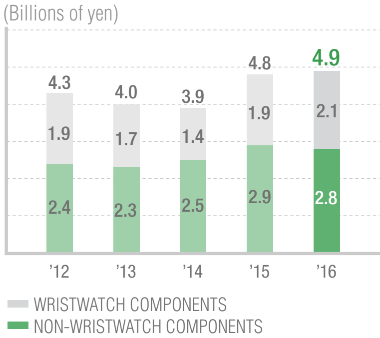
Business Environment and Results in Fiscal 2016

The products in this segment are divided into two main areas: wristwatch components, a business that the Company has been involved in since it was founded, and other precision components (non-wristwatch components) such as automotive-, medical-, and air-conditioner-related components.

Buoyed by such factors as inbound demand, sales of wristwatch components to wristwatch makers were robust. As a result, wristwatch component sales climbed 9.3% compared with the previous fiscal year to ¥2,077 million (US$18,219 thousand). Despite a boost from the weak yen, sales of non-wristwatch components declined 2.6% year on year to ¥2,848 million (US$24,982 thousand) due to such factors as the slump in sales of components for hard disk drives (HDDs).

PRECISION PRODUCTS SEGMENT SALES

(Billions of yen)



Taking into account these factors, sales in the Precision Products Segment increased 2.1% compared with the previous fiscal year to ¥4,927 million (US$43,219 thousand). In contrast, operating income declined 14.4% year on year to ¥593 million (US$5,202 thousand).

Outlook for Fiscal 2017 and Business Strategies

In the fiscal year ending February 28, 2017, trends in wristwatch components are forecast to remain firm. Sales of non-wristwatch components, on the other hand, are expected to decline in the Precision Products Segment. Looking ahead, the Star Micronics Group will pursue growth potential through an increase in the sale of high-value-added non-wristwatch components including products to the automotive-related sector.

Based on the aforementioned, Star Micronics is projecting sales for the Precision Products Segment of ¥4,800 million, down 2.6% compared with the fiscal year under review, and operating income of ¥650 million, up 9.6% year on year.

Automotive Components

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.

Based on a resolution at the Company's 91st General Meeting held on May 26, 2016, Star Micronics transitioned to a company with an audit and supervisory committee in order to further strengthen the supervisory function of its Board of Directors and to enhance its corporate governance capabilities.

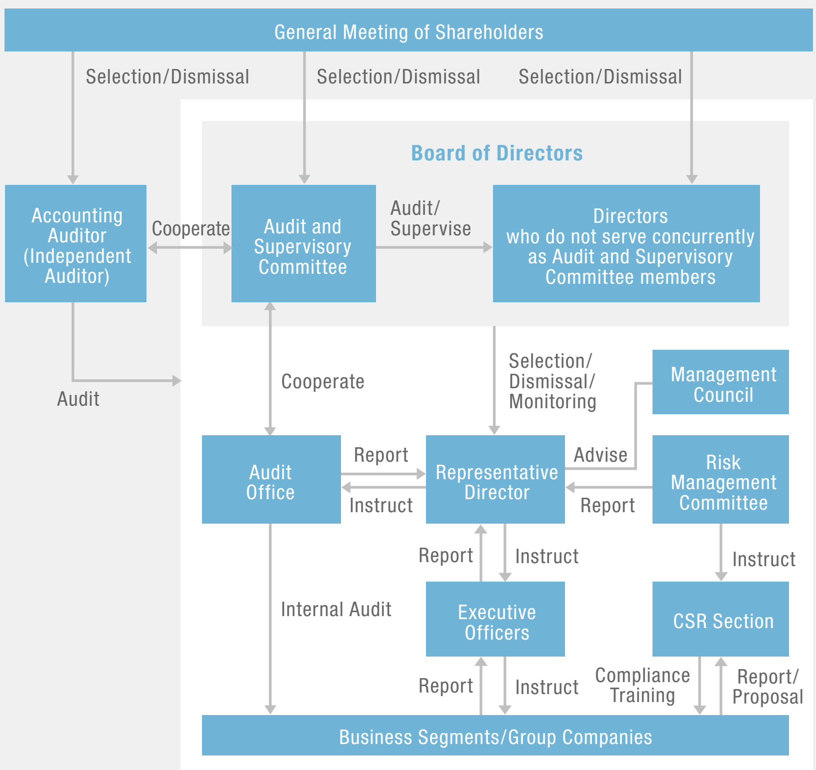
The Company has decided to set the number of internal directors including the president at three and to appoint four outside directors including directors who serve as Audit and Supervisory Committee members. In this manner, outside directors make up a majority of the Board of Directors. Based on each of the aforementioned, the Company has taken steps to further clarify the supervisory and executive roles of management. This initiative is aimed at increasing the speed at which business strategies are implemented.

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

The Board of Directors is comprised of seven directors, four of whom are appointed from outside the Company. This ensures the independence, efficacy, and efficiency of the decision-making process while fortifying the supervisory function with respect to the execution of directors' duties.

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

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, a yearly bonus and stock options provided as a medium- to long-term incentive. In view of the tasks that they are asked to perform, outside directors and directors who concurrently serve as Audit and Supervisory Committee members receive only the basic compensation.

The standard amount of basic compensation paid to directors (excluding directors who concurrently serve as Audit and Supervisory Committee members) is based on the Company’s performance as well as the status and position of each director. Together with the bonus payment outlined below, the basic compensation paid to each director shall not exceed ¥300 million annually. Of this total, the amount paid to outside directors shall not exceed ¥20 million annually.

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

The total amount of bonuses paid to directors is calculated by multiplying profit attributable to owners of the parent by a payment rate determined by the Company. The amount of each bonus paid to individual directors (excluding outside directors and directors who concurrently serve as Audit and Supervisory Committee members) shall be determined in line with the status and position of each director. The Company determined that the payment of directors’ bonuses falls within the scope of profit-based compensation stipulated under Article 34, Paragraph 1.3 of Japan’s Corporation Tax Act at a Board of Directors’ meeting held on May 26, 2016.

Turning to the granting of stock options, the amount of allocation to each director (outside directors as well as directors who serve as Audit and Supervisory Committee members) shall not exceed ¥100 million annually. Stock options shall entail the issuance of two types of stock acquisition rights (SARs): ordinary stock options granted as a medium-term incentive and stock compensation-type stock options granted as a long-term incentive. SARs shall be allocated in line with the status and position of each director.

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 director)	231	104	52	74	7
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	—	—	—	—	—
Outside director and Audit & Supervisory Board members	21	21	—	—	5

Notes:

1. The figures for “Stock options” and “Bonus” are the monetary amounts recorded as expenses in the fiscal year under review.
2. The aforementioned amount of director compensation does not include salaries paid to directors who are also employees of the Company.
3. Star Micronics is scheduled to pay ¥57 million in total to two 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.

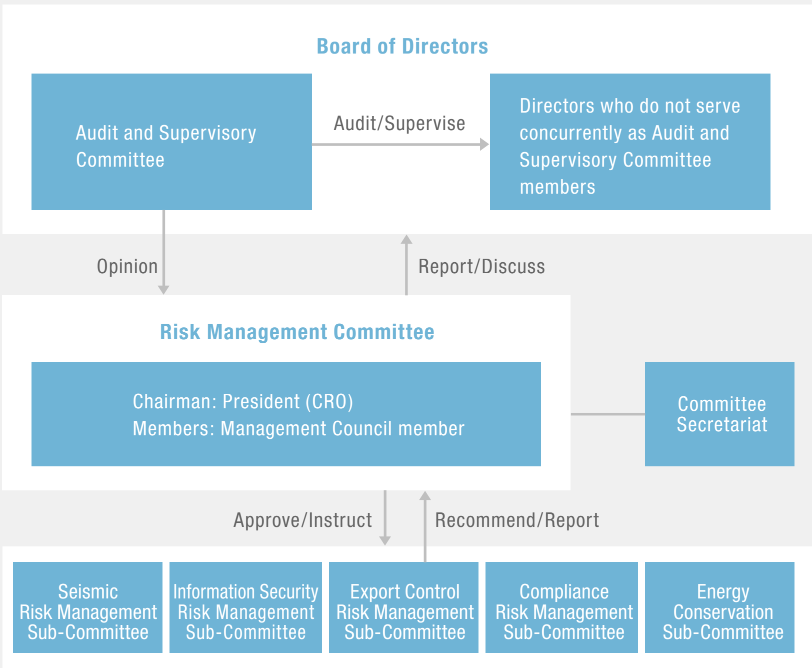
Internal Control System

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

Risk Management

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

STAR MICRONICS' RISK MANAGEMENT SYSTEM



Consolidated Eleven-Year Summary

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

	2016	2015	2014
For the year:			
Net sales	**¥54,458**	¥50,958	¥43,482
Cost of sales	**33,558**	31,355	28,047
Selling, general and administrative expenses	**15,165**	14,126	12,829
Operating income (loss)	**5,735**	5,477	2,606
Other income (expenses) – net	**(383)**	605	40
Income (loss) before income taxes and minority interests	**5,352**	6,082	2,646
Income taxes	**1,530**	1,285	1,400
Minority interests in net income	**101**	101	103
Net income (loss)	**3,721**	4,696	1,143
Net cash provided by operating activities	**3,107**	4,326	2,597
Net cash used in investing activities	**(1,074)**	(2,501)	(2,455)
Free cash flows	**2,033**	1,825	142
Net cash used in financing activities	**(2,180)**	(1,568)	(1,394)
Per share:			
Basic net income (loss)	**¥ 87.98**	¥111.36	¥ 27.17
Diluted net income	**87.69**	111.05	27.14
Cash dividends applicable to the year	**46.00**	44.00	34.00
At year-end:			
Current assets	**¥50,367**	¥50,533	¥41,233
Net property, plant and equipment	**14,360**	15,309	14,327
Total assets	**67,828**	70,261	59,303
Long-term liabilities	**2,021**	617	524
Total equity	**50,200**	51,903	45,698
Stock exchange price per share of common stock:			
Highest	**¥2,238**	¥1,885	¥1,422
Lowest	**1,125**	1,115	857
Selected financial indicators:			
Equity ratio (%)	**72.7**	72.4	75.5
Return on equity (%)	**7.4**	9.8	2.7
Dividend payout ratio (%)	**52.3**	39.5	125.1
Dividend on equity (%)	**3.9**	3.9	3.4

Millions of yen (Except for per share data)

2013	2012	2011	2010	2009	2008	2007	2006
¥37,858	¥41,654	¥35,718	¥29,181	¥56,953	¥73,884	¥62,670	¥54,788
24,683	25,753	23,265	22,326	33,535	42,207	37,004	32,875
11,595	11,948	11,024	10,840	14,873	17,025	15,222	13,805
1,580	3,953	1,429	(3,985)	8,545	14,652	10,444	8,108
2,140	(724)	(1,069)	(2,665)	(984)	(271)	410	(68)
3,720	3,229	360	(6,650)	7,561	14,381	10,854	8,040
1,330	717	107	1,800	3,147	6,190	3,719	2,799
90	85	92	105	76	111	122	89
2,300	2,427	161	(8,555)	4,338	8,080	7,013	5,152
483	4,466	3,520	4,769	6,152	10,666	10,711	4,594
(1,908)	(393)	(1,518)	(1,194)	(1,314)	(8,072)	(3,169)	(3,619)
(1,425)	4,073	2,002	3,575	4,838	2,594	7,542	975
(1,202)	(2,092)	(1,813)	(3,977)	(9,077)	(2,152)	(1,331)	(866)
¥ 54.66	¥ 56.94	¥ 3.71	¥(187.95)	¥ 85.66	¥150.74	¥131.09	¥ 95.60
				85.63	150.47	130.73	95.38
30.00	26.00	22.00	22.00	45.00	56.00	32.00	21.00
¥35,827	¥38,302	¥34,836	¥ 34,346	¥44,762	¥63,152	¥53,620	¥44,615
13,476	10,289	10,549	11,678	15,169	17,728	16,355	16,210
52,564	51,925	49,250	50,681	64,205	86,375	76,195	66,826
303	407	423	592	459	696	920	793
40,710	36,980	37,096	41,261	52,986	66,602	61,396	54,295
	Yen						
¥988	¥958	¥1,182	¥1,020	¥2,175	¥3,740	¥2,710	¥2,090
647	657	702	595	773	1,506	1,691	941
76.1	70.2	73.9	80.1	81.5	76.2	79.9	81.2
6.0	6.7	0.4		7.3	12.8	12.2	10.1
54.9	45.7	593.0		52.5	37.2	24.4	22.0
3.3	3.0	2.5	2.2	3.8	4.7	3.0	2.2

Management's Discussion and Analysis

OVERVIEW (Years ended February 29, 2016 and February 28, 2015)

Business Environment

In fiscal 2016, the year ended February 29, 2016, the U.S. economy exhibited a steady recovery trend. While Europe continued to experience a modest positive turnaround, in Asia, the rates of economic growth in China and Southeast Asia slowed. In Japan, the economy continued to recover at a moderate but sluggish pace.

Net Sales

(Millions of yen)

	2015	2016	Change (%)
	¥50,958	**¥54,458**	6.9

The Machine Tools market exhibited mixed trends during the fiscal year under review. While demand was robust in the first half, activity entered a period of decline over the second half. In the Special Products Segment, demand in POS-related markets was sluggish in both the U.S. and Europe. In markets related to the Precision Products Segment, trends in demand for wristwatch components were strong.

Operating Income

(Millions of yen)

	2015	2016	Change (%)
	¥5,477	**¥5,735**	4.7

In addition to an upswing in machine tools sales, earnings were boosted by the impact of the weaker yen.

Net Income

(Millions of yen)

	2015	2016	Change (%)
	¥4,696	**¥3,721**	(20.8)

The Company reported a foreign exchange loss of ¥881 million as an other expense. As a result, net income declined year on year.

Cash Dividends per Share

(Yen)

	2015	2016	Change (Yen)
	¥44	**¥46**	¥2

The annual cash dividend in the fiscal year under review increased ¥2 per share from the previous fiscal year to ¥46 per share.

Total Assets

(Millions of yen)

	2015	2016	Change (%)
	¥70,261	**¥67,828**	(3.5)

Total assets declined from the end of the previous fiscal year. Despite an increase in inventories, this decline was mainly due to a decrease in investment securities as well as property, plant and equipment.

Free Cash Flows

(Millions of yen)

	2015	2016	Change (%)
	¥1,825	**¥2,033**	11.4

Free cash flows grew during the fiscal year under review. Despite a downturn in earnings, this largely reflected the decrease in net cash used in investing activities.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

(Millions of yen)

	2015	2016	Change (%)
	¥2,105	**¥2,275**	8.1

Capital expenditures increased year on year. This was mainly due to the introduction of production facilities as a part of efforts to rationalize production in the Machine Tools Segment and steps to expand factories in Japan in the Precision Products Segment.

Sales by Region

(Millions of yen)

	2015	2016	Change (%)
Japan	¥ 8,951	**¥ 8,729**	(2.5)
USA	12,123	**12,566**	3.7
Germany	6,629	**7,339**	10.7
China	5,320	**6,543**	23.0
Others	17,935	**19,281**	7.5

INCOME ANALYSIS

Achieved sound growth in revenue and operating income due to robust results in the Machine Tools Segment and the impact of the weaker yen.

In fiscal 2016, the year under review, the Company reported consolidated sales of ¥54,458 million (US$477,702 thousand), up 6.9%, or ¥3,500 million, year on year. In the machine tools market, conditions were mixed. While demand was robust during the first half, activity entered a period of decline over the second half. In the Special Products Segment, demand in POS-related markets was sluggish in both the U.S. and Europe. In markets related to the Precision Products Segment, trends in demand for wristwatch components were strong. Turning to foreign currency exchange rate movements, the yen weakened against the U.S. dollar and strengthened against the euro through fiscal 2016 compared with the previous period.

The cost of sales increased 7.0%, or ¥2,203 million, year on year, to ¥33,558 million (US$294,369 thousand). As a result, gross profit climbed 6.6%, or ¥1,297 million, to ¥20,900 million (US$183,333 thousand). On this basis, the gross profit margin came in at 38.4%, roughly the same level as the previous period.

Selling, general and administrative (SG&A) expenses grew 7.4%, or ¥1,039 million, year on year, to ¥15,165 million (US$133,026 thousand). This growth was mainly due to the upswing in direct marketing expenses in line with the increase in sales as well as the impact of movements in foreign currency exchange rates.

Accounting for each of the aforementioned, the Company saw operating income increase 4.7%, or ¥258 million, year on year, to ¥5,735 million (US$50,307 thousand). The operating income ratio, however, declined 0.2 of a percentage point to 10.5%.

Impacted by the incidence of a foreign exchange loss, net income declined.

In fiscal 2016, other expenses – net came to ¥383 million (US$3,360 thousand) compared with other income – net of ¥605 million in the previous period. This was mainly due to the incidence of a foreign exchange loss – net of ¥881 million (US$7,728 thousand).

Based on the aforementioned, income before income taxes and minority interests decreased 12.0%, or ¥730 million, year on year, to ¥5,352 million (US$46,947 thousand). Total income taxes were ¥1,530 million (US$13,421 thousand). Net income after deducting minority interests was ¥3,721 million (US$32,640 thousand), down 20.8%, or ¥975 million, year on year.

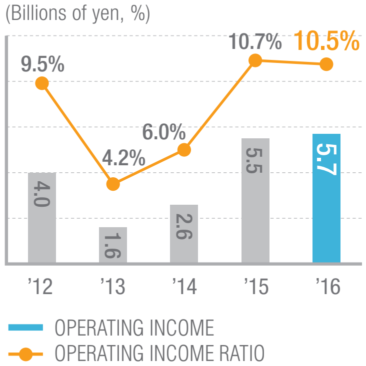
Basic net income per share came to ¥87.98 (US$0.77) and diluted net income per share was ¥87.69 (US$0.77).

The annual cash dividend increased ¥2 per share year on year, to ¥46 per share.

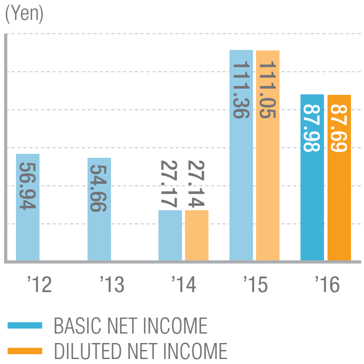
The Company increased its annual cash dividend ¥2 per share for the fiscal year under review to ¥46 (US$0.40) per share. The dividend on equity (DOE) came to 3.9%, unchanged from the previous period. The Company plans to again increase its annual cash dividend ¥2 per share for the fiscal year ending February 28, 2017 to ¥48 per share.

Looking ahead, the Company is emphasizing shareholders' returns and is aiming for a dividend payout ratio of at least 40% while taking into consideration DOE when setting future dividends. At the same time, the Company's planned use of internal reserves will include investment in future growth areas to achieve sustainable growth, with the goals on raising both corporate value and shareholder profits.

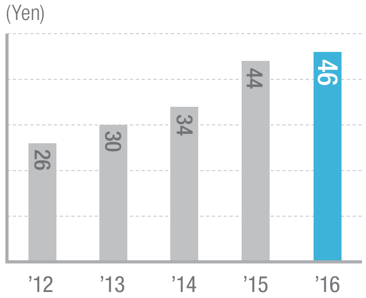
OPERATING INCOME AND OPERATING INCOME RATIO
(Billions of yen, %)



NET INCOME PER SHARE
(Yen)



CASH DIVIDENDS PER SHARE
(Yen)



FINANCIAL POSITION & LIQUIDITY

Despite an increase in inventories, total assets declined due mainly to a drop in investment securities and property, plant and equipment.

Total current assets as of February 29, 2016 stood at ¥50,367 million (US$441,816 thousand), a decrease of 0.3%, or ¥166 million, compared with the previous fiscal year-end. Despite a year-on-year increase in the balance of inventories, which climbed 8.5%, or ¥1,405 million, to ¥17,845 million (US$156,535 thousand), this downturn in current assets largely reflected lower balances of cash and cash equivalents, which decreased 2.9%, or ¥444 million, to ¥14,870 million (US$130,439 thousand), short-term investments, which fell 26.5%, or ¥574 million, to ¥1,595 million (US$13,991 thousand), and other current asset accounting line items, which declined in overall terms.

Net property, plant and equipment decreased 6.2%, or ¥949 million, to ¥14,360 million (US$125,965 thousand). This decrease was mainly due to further depreciation of various facilities. The balance of investment and other assets declined 29.8%, or ¥1,318 million, compared with the previous fiscal year-end to ¥3,101 million ($27,201 thousand). This largely reflected the sale of investments securities.

Accounting for each of the aforementioned factors, total assets decreased 3.5%, or ¥2,433 million, compared with the balance as of February 28, 2015 to ¥67,828 million (US$594,982 thousand).

Despite an increase in liability for retirement benefits, total liabilities declined owing mainly to the decrease in trade payables.

Current liabilities decreased 12.0%, or ¥2,134 million, compared with the end of the previous fiscal year to ¥15,607 million (US$136,903 thousand). This decrease was largely attributable to the drop of 18.8%, or ¥2,067 million, in trade payables to ¥8,934 million (US$78,368 thousand).

Total long-term liabilities came to ¥2,021 million (US$17,728 thousand), up 227.6%, or ¥1,404 million compared with the previous fiscal year-end. This surge was mainly due to an increase in the liability for retirement benefits associated with the application of the accounting standard for retirement benefits, which climbed from ¥122 million as of February 28, 2015 to ¥1,726 million (US$15,140 thousand) as of February 29, 2016.

While the balance of equity declined due to the impact of comprehensive income accounting line items, the Company's equity ratio improved.

Total equity decreased 3.3%, or ¥1,703 million, compared with the previous fiscal year-end to ¥50,200 million (US$440,351 thousand). While retained earnings grew 1.0%, or ¥269 million, to ¥27,805 million (US$243,904 thousand), this decrease mainly reflected a drop in the balances of foreign currency translation adjustments from ¥693 million as of February 28, 2015 to ¥1 million (US$9 thousand) as of February 29, 2016, and defined retirement benefit plans from a negative ¥215 million as of the end of fiscal 2015 to a negative ¥874 million (US$7,667 thousand) as of the end of the fiscal year under review. Owing to the increase in total assets, the equity ratio moved up 0.3 of a percentage point year on year to 72.7%. Equity per share as of the end of fiscal 2016 decreased ¥40.63 compared with the end of the previous period to ¥1,164.47 (US$10.21).

CASH FLOWS

The decrease in net cash provided by operating activities offset the downturn in net cash used in investing activities.

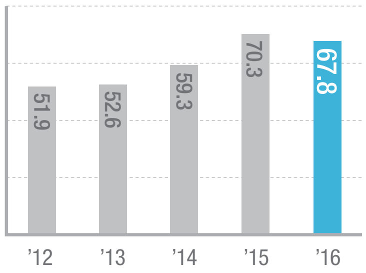
Net cash provided by operating activities came to ¥3,107 million (US$27,254 thousand), down ¥1,219 million year on year. Major cash inflows included income before income taxes and minority interests of ¥5,352 million (US$46,947 thousand) as well as depreciation and amortization of ¥2,274 million (US$19,947 thousand). These inflows were more than offset by cash outflows including an increase in inventories of ¥1,652 million (US$14,491 thousand), a decrease in trade payables of ¥1,296 million (US$11,368 thousand) and income taxes – paid of ¥1,927 million (US$16,904 thousand).

Net cash used in investing activities was ¥1,074 million (US$9,421 thousand), a decrease of ¥1,427 million compared with the previous fiscal year. The main contributing factors were proceeds from sales of marketable and investment securities of ¥1,639 million (US$14,377 thousand) and a decrease in short-term investments of ¥580 million (US$5,088 thousand), which more than offset ¥2,119 million (US$18,588 thousand) in purchases of property, plant and equipment.

Net cash used in financing activities was ¥2,180 million (US$19,123 thousand), a year-on-year increase of ¥612 million. This was mainly the result of ¥2,025 million (US$17,763 thousand) in dividends paid to shareholders.

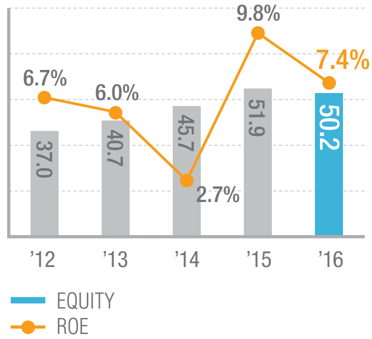
TOTAL ASSETS

(Billions of yen)



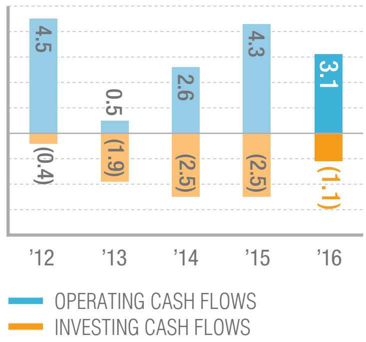
EQUITY AND RETURN ON EQUITY

(Billions of yen, %)



CASH FLOWS

(Billions of yen)



Taking into account each of these activities, and after foreign currency translation adjustments on cash and cash equivalents of negative ¥297 million (US$2,605 thousand), cash and cash equivalents as of February 29, 2016 stood at ¥14,870 million (US$130,439 thousand), representing a net decrease of ¥444 million (US$3,895 thousand) compared with the previous fiscal year-end.

CAPITAL EXPENDITURES AND R&D EXPENSES

Capital expenditures increased 8.1% compared with the previous fiscal year. This was mainly directed toward the Precision Products Segment.

Capital expenditures in fiscal 2016 increased 8.1%, or ¥170 million, year on year to ¥2,275 million (US$19,956 thousand). In fiscal 2017, the Company plans to undertake capital expenditures totaling ¥2,396 million.

Special Products–Expenditures in the Special Products Segment climbed ¥52 million year on year to ¥257 million (US$2,254 thousand). In fiscal 2017, the Company is budgeting expenditures of ¥260 million in this segment mostly for dyes used in the manufacture of new products.

Machine Tools–Expenditures in the Machine Tools Segment decreased ¥256 million compared with the previous fiscal year to ¥1,133 million (US$9,939 thousand). In fiscal 2017, the Company is looking to undertake expenditures of ¥1,200 million. Expenses will cover such activities as the maintenance and renewal of facilities as well as the rationalization of production.

Precision Products–Expenditures in the Precision Products Segment came to ¥626 million (US$5,491 thousand), up ¥314 million year on year. In fiscal 2017, the Company expects to spend ¥781 million mostly in expanding and rationalizing production while also bolstering labor-saving production facilities.

Development of new products by the R&D Center and business divisions.

R&D Activities–During the fiscal year under review, R&D spending totaled ¥2,005 million (US$17,588 thousand).

R&D Center–The R&D Center works to cultivate commercially viable businesses in new fields, and to provide technical support to all of the Company's segments. In cultivating new business in the promising growth fields of the environment and power generation and long-term elderly care, the R&D Center aims to develop high-value-added products through the application of circuit and software technologies in devices that leverage its accumulated technological expertise in miniaturization, electromagnetic induction and acoustics.

In the fiscal year under review, the R&D Center worked on the development of products for new markets, such as wireless sensor networks for the internet of things (IoT). The Company showcased at an exhibition its battery-less Vibration Harvester Beacon, which combines a compact vibration power generation unit that transforms imperceptible vibrations into electricity with sensors and a wireless communications module.

While strengthening its joint research endeavors with universities and alliances with other companies, the R&D Center is developing products for promising new growth fields, such as compact precision actuators that leverage its proprietary technologies.

The R&D Center continues to provide other business segments within the Company with technical support in the areas of physico-chemical analysis, computer-aided engineering (CAE), and new production technologies, as it works to raise the bar for technology and quality throughout the entire Company. The center is also responsible for supporting the testing and evaluation of products for quality assurance.

The R&D Center spent ¥620 million (US$5,439 thousand) on R&D during the fiscal year under review.

Special Products Segment–During the fiscal year under review, the Special Products Segment developed the mPOP, a new series of products that integrates a 2-inch thermal printer and an innovative cash drawer for the mobile POS market, as well as the TSP100IIIW, a new 3-inch thermal printer with wireless LAN compatibility, and the AllReceipts electronic receipt solution.

With a beautiful and stylish appearance, the mPOP series of products offers attractive designs and features in a minimal footprint combining a thermal printer and a cash drawer. The motor-powered cash drawer opens silently, and interfaces include wireless Bluetooth and wired USB ports for connecting to the host device (that is, a tablet or PC). It also features A-type USB ports for supplying power to external devices and connecting to bar code scanners. As for new features, the mPOP has a de-curling function that prevents printed receipts from curling up, and a dedicated utility application for easy setup.

The TSP100IIIW is the latest model in the TSP100 series, which has sold more than 1.2 million units altogether. While preserving the concept of multi-function utility and an all-in-one design, the TSP100IIIW is the first in the series to offer wireless LAN functionality and compatibility with WPS*, which facilitates connections to wireless routers and access points. It also boasts the fastest printing speed (250mm/s) in the series, and comes with the de-curling function and a 5V USB port for recharging mobile devices such as tablets. On the software front, the StarIO SDK for Star Micronics' printers is now compatible with Windows 10 devices in addition to iOS and Android devices.

AllReceipts is a digital receipt solution for small and medium-sized businesses that manages receipt data in the cloud via Star Micronics' printers. Contrary to other similar services, AllReceipts does not require retail stores to purchase high-priced specialized equipment, and customers do not have to register any personal information such as their email address. Instead, AllReceipts can be used with just Star Micronics' printers and the AllReceipts app for smartphones.

R&D expenses totaled ¥687 million (US$6,026 thousand) in the Special Products Segment during the fiscal year under review.

* WPS: Wi-Fi Protected Setup is a specification for easily and securely establishing connections to wireless LANs.

Machine Tools Segment–In the fiscal year under review, the Company developed the SR-38 Type B model targeting large-diameter complex workpiece machining for the automobile, hydraulics/pneumatics and general machinery industries.

The SR-38 Type B model has a maximum machining diameter of 38mm and features a total of ten control axes, comprising seven linear control axes, two spindle rotation control axes and one tool swing control axis (B axis). It employs a portal-type tool post with a uniform load cross guide structure arranged to surround the guide bush for front-side machining. This portal-type tool post is equipped with a rear tool holder, which individually controls the X axis and enables a balance-cut mechanism. This mechanism achieves rough machining and finish machining simultaneously in large-diameter machining where the depth of cut from the large-diameter material is large, resulting in reduced machining time. The SR-38 Type B has a B-axis controlled power tool unit for flexible angle control by programming, enabling slant machining of slant holes, and so forth. for a wide range of machining variations. In addition, an eight-spindle unit with a Y-axis control function is also mounted for rear-side machining. Enhanced machining capability on the rear side, efficient process split between the front and rear sides and simultaneous machining on both the front and rear sides are now possible for reduced machining time.

As for control, the SR-38 Type B incorporates the Company's proprietary Star Motion Control System in order to dramatically reduce non-cutting time, such as control system switchover time and tool selection time, thereby minimizing total cycle time. This model can also switch between guide bush specifications and non-guide bush specifications.

In high-function models, the Company developed the SV-20R model as a successor to the SV-20 model, which has been well regarded by medical equipment-related companies in Europe and the US.

The SV-20R has a maximum machining diameter of 20mm and 12 controlled axes comprising nine axes for linear movement, two axes for spindle rotation and a B axis for tool swing movement. For front machining, a 2-axis controlled gang-type tool post is arranged on the front side, and a 3-axis controlled turret-type tool post is arranged on the rear side, with the guide bush in the center. Each tool post is controlled independently so that turning, drilling and milling can be performed at the same time. Machining time is reduced by dividing the processes on the front and rear sides or by simultaneously machining on both sides via an 8-spindle unit with a Y-axis control function especially designed for rear working.

As for control, the SV-20R incorporates the Company's proprietary Star Motion Control System, and can switch between guide bush specifications and non-guide bush specifications.

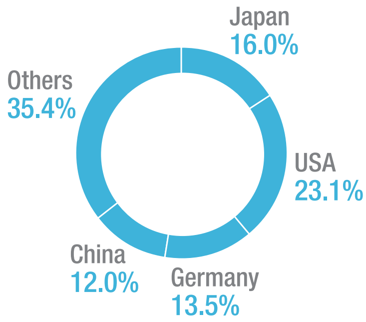
In software development, we are focusing our efforts on continuously improving software in light of market needs by enhancing operability, functionality and safety. Moreover, as part of our environmental initiatives, we have established our own Star Environmental Standards. We designate the automatic lathes that satisfy these standards with an ECO mark. Also, we are working to increase the ratio of components that are RoHS compliant, and are proactively promoting the powder coating of sheet-metal parts.

In the Machine Tools Segment, R&D expenses amounted to ¥698 million (US$6,123 thousand) in the fiscal year under review.

SALES FRAMEWORK AND NET SALES BY REGION

A significant proportion of the Company's products are sold in international markets. To provide customer support on a global scale, the Company operates an extensive network of production and marketing sites across a number of regions worldwide. Details of the Group's principal bases are presented as follows.

NET SALES BY REGION



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

The ratio of overseas sales to all sales increased with an especially strong upswing in China.

In the fiscal year under review, overseas sales as a proportion of total sales increased 1.6 percentage points year on year to 84.0%.

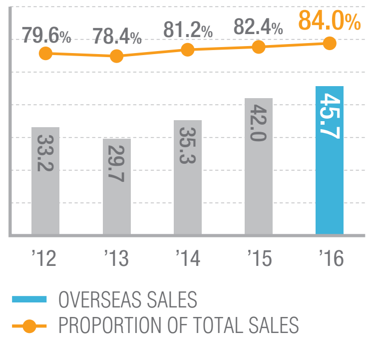
By region, net sales in the U.S. rose 3.7%, or ¥443 million, to ¥12,566 million (US$110,228 thousand).

Net sales in Germany climbed 10.7%, or ¥710 million, to ¥7,339 million (US$64,377 thousand).

Net sales in China grew 23.0%, or ¥1,223 million, to ¥6,543 million (US$57,395 thousand).

In Japan, net sales decreased 2.5%, or ¥222 million, to ¥8,729 million (US$76,570 thousand).

OVERSEAS SALES AND PROPORTION OF TOTAL SALES
(Billions of yen, %)



Consolidated Balance Sheet

Star Micronics Co., Ltd. and Consolidated Subsidiaries
February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2016	2015	2016
Current assets:			
Cash and cash equivalents (Note 14)	¥ 14,870	¥ 15,314	$ 130,439
Marketable securities (Notes 3 and 14)	301	300	2,640
Short-term investments (Notes 4 and 14)	1,595	2,169	13,991
Receivables (Note 14):			
Trade notes and accounts receivable	13,743	14,232	120,553
Unconsolidated subsidiaries and associated companies	406	576	3,561
Other	936	1,000	8,211
Allowance for doubtful receivables	(109)	(120)	(956)
Inventories (Note 5)	17,845	16,440	156,535
Deferred tax assets (Note 11)	231	178	2,026
Prepaid expenses and other	549	444	4,816
Total current assets	50,367	50,533	441,816
Property, plant and equipment:			
Land	3,000	3,041	26,316
Buildings and structures	16,080	16,446	141,053
Machinery and equipment	23,826	23,328	209,000
Lease assets (Note 13)	121	97	1,061
Construction in progress	53	32	465
Total	43,080	42,944	377,895
Accumulated depreciation	(28,720)	(27,635)	(251,930)
Net property, plant and equipment	14,360	15,309	125,965
Investments and other assets:			
Investment securities (Notes 3 and 14)	1,599	3,164	14,026
Investments in unconsolidated subsidiaries and associated companies	416	408	3,649
Deferred tax assets (Note 11)	147	181	1,289
Other assets	939	666	8,237
Total investments and other assets	3,101	4,419	27,201
Total	¥ 67,828	¥ 70,261	$ 594,982

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Current liabilities:			
Payables (Note 14):			
Trade notes and accounts payable	¥ 7,316	¥ 9,179	$ 64,175
Unconsolidated subsidiaries and associated companies	1	1	9
Other	1,617	1,821	14,184
Short-term bank loans (Notes 7 and 14)	2,000	2,000	17,544
Current portion of long-term debt (Note 7)	18	18	158
Income taxes payable (Note 11)	257	515	2,254
Accrued expenses	887	1,036	7,781
Deferred tax liabilities (Note 11)	602	497	5,281
Other	2,909	2,674	25,517
Total current liabilities	15,607	17,741	136,903
Long-term liabilities:			
Long-term debt (Note 7)	39	35	342
Liability for retirement benefits (Note 8)	1,726	122	15,140
Deferred tax liabilities (Note 11)	112	313	983
Other	144	147	1,263
Total long-term liabilities	2,021	617	17,728
Commitments and contingent liabilities (Note 13)			
Equity (Notes 9, 10 and 20):			
Common stock – authorized, 158,000,000 shares; issued, 47,033,234 shares in 2016 and 2015	12,722	12,722	111,596
Capital surplus	13,923	13,902	122,132
Stock acquisition rights (Note 10)	152	86	1,333
Retained earnings	27,805	27,536	243,904
Treasury stock – at cost, 4,713,213 shares in 2016 and 4,806,584 shares in 2015	(4,479)	(4,567)	(39,289)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	182	816	1,596
Foreign currency translation adjustments	1	693	9
Defined retirement benefit plans	(874)	(215)	(7,667)
Total	49,432	50,973	433,614
Minority interests	768	930	6,737
Total equity	50,200	51,903	440,351
Total	¥67,828	¥70,261	$594,982

See notes to consolidated financial statements.

Consolidated Statement of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net sales	¥54,458	¥50,958	$477,702
Cost of sales (Note 8)	33,558	31,355	294,369
Gross profit	20,900	19,603	183,333
Selling, general and administrative expenses (Notes 8 and 12)	15,165	14,126	133,026
Operating income	5,735	5,477	50,307
Other income (expenses):			
Interest and dividend income	216	202	1,895
Interest expense	(15)	(11)	(132)
Foreign exchange (loss) gain – net	(881)	268	(7,728)
Gain on sales of property, plant and equipment	8	5	70
Gain on sales of investment securities	267	20	2,342
Loss on disposals of property, plant and equipment	(31)	(94)	(272)
Loss on impairment of long-lived assets (Note 6)	(98)		(860)
Other – net	151	215	1,325
Other income (expenses) – net	(383)	605	(3,360)
Income before income taxes and minority interests	5,352	6,082	46,947
Income taxes (Note 11)**:**			
Current	1,458	1,432	12,789
Deferred	72	(147)	632
Total income taxes	1,530	1,285	13,421
Net income before minority interests	3,822	4,797	33,526
Minority interests in net income	101	101	886
Net income	¥ 3,721	¥ 4,696	$ 32,640
	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 2.r, 9 and 17)**:**			
Basic net income	¥87.98	¥111.36	$0.77
Diluted net income	87.69	111.05	0.77
Cash dividends applicable to the year	46.00	44.00	0.40

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net income before minority interests	¥ 3,822	¥4,797	$ 33,526
Other comprehensive income (Note 16)**:**			
Unrealized (loss) gain on available-for-sale securities	(634)	338	(5,562)
Foreign currency translation adjustments	(735)	2,730	(6,446)
Defined retirement benefit plans	(585)		(5,132)
Share of other comprehensive income in an associate		37	
Total other comprehensive income	(1,954)	3,105	(17,140)
Comprehensive income	¥ 1,868	¥7,902	$ 16,386
Total comprehensive income attributable to (Note 16)**:**			
Owners of the parent	¥ 1,811	¥7,704	$ 15,886
Minority interests	57	198	500

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 29, 2016

	Thousands	Millions of yen										
							Accumulated other comprehensive income (loss)					
	Outstanding number of shares of common stock	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock– at cost	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Minority interests	Total equity
Balance, February 28, 2014	42,099	¥12,722	¥13,882	¥ 54	¥24,357	¥(4,688)	¥ 478	¥(1,978)		¥44,827	¥ 871	¥45,698
Net income					4,696					4,696		4,696
Cash dividends, ¥44.0 per share					(1,517)					(1,517)		(1,517)
Purchase of treasury stock	(1)					(1)				(1)		(1)
Disposal of treasury stock	129		20			122				142		142
Net change in the year				32			338	2,671	¥(215)	2,826	59	2,885
Balance, February 28, 2015 (March 1, 2015, as previously reported)	42,227	¥12,722	¥13,902	¥ 86	¥27,536	¥(4,567)	¥ 816	¥ 693	¥(215)	¥50,973	¥ 930	¥51,903
Cumulative effect of accounting change					(1,423)				(74)	(1,497)		(1,497)
Balance, March 1, 2015 (as restated)	42,227	¥12,722	¥13,902	¥ 86	¥26,113	¥(4,567)	¥ 816	¥ 693	¥(289)	¥49,476	¥ 930	¥50,406
Net income					3,721					3,721		3,721
Cash dividends, ¥46.0 per share					(2,029)					(2,029)		(2,029)
Purchase of treasury stock	(1)					(2)				(2)		(2)
Disposal of treasury stock	94		21			90				111		111
Net change in the year				66			(634)	(692)	(585)	(1,845)	(162)	(2,007)
Balance, February 29, 2016	42,320	¥12,722	¥13,923	¥152	¥27,805	¥(4,479)	¥ 182	¥ 1	¥(874)	¥49,432	¥ 768	¥50,200

	Thousands of U.S. dollars (Note 1)										
						Accumulated other comprehensive income (loss)					
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock– at cost	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Minority interests	Total equity
Balance, February 28, 2015 (March 1, 2015, as previously reported)	$111,596	$121,947	$ 754	$241,544	$(40,061)	$ 7,158	$ 6,079	$(1,886)	$447,131	$ 8,158	$455,289
Cumulative effect of accounting change				(12,483)				(649)	(13,132)		(13,132)
Balance, March 1, 2015 (as restated)	$111,596	$121,947	$ 754	$229,061	$(40,061)	$ 7,158	$ 6,079	$(2,535)	$433,999	$ 8,158	$442,157
Net income				32,640					32,640		32,640
Cash dividends, $0.40 per share				(17,797)					(17,797)		(17,797)
Purchase of treasury stock					(17)				(17)		(17)
Disposal of treasury stock		185			789				974		974
Net change in the year			579			(5,562)	(6,070)	(5,132)	(16,185)	(1,421)	(17,606)
Balance, February 29, 2016	$111,596	$122,132	$1,333	$243,904	$(39,289)	$ 1,596	$ 9	$(7,667)	$433,614	$ 6,737	$440,351

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Operating activities:			
Income before income taxes and minority interests	¥ 5,352	¥ 6,082	$ 46,947
Adjustments for:			
Income taxes – paid	(1,927)	(1,463)	(16,904)
Depreciation and amortization	2,274	1,924	19,947
Loss on impairment of long-lived assets	98		860
Reversal of allowance for doubtful receivables	(9)	(8)	(79)
Loss on sales and disposals of property, plant and equipment	23	67	202
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	215	(1,480)	1,886
Increase in inventories	(1,652)	(2,788)	(14,491)
(Decrease) increase in trade payables	(1,296)	1,649	(11,368)
Decrease in liability for retirement benefits	(478)	(171)	(4,193)
Other – net	507	514	4,447
Total adjustments	(2,245)	(1,756)	(19,693)
Net cash provided by operating activities	3,107	4,326	27,254
Investing activities:			
Purchases of property, plant and equipment	(2,119)	(1,386)	(18,588)
Proceeds from sales of property, plant and equipment	26		228
Decrease (increase) in short-term investments	580	(1,379)	5,088
Purchases of marketable and investment securities	(633)	(631)	(5,552)
Proceeds from sales of marketable and investment securities	1,639	480	14,377
Other – net	(567)	415	(4,974)
Net cash used in investing activities	(1,074)	(2,501)	(9,421)
Financing activities:			
Dividends paid to shareholders	(2,025)	(1,515)	(17,763)
Dividends paid to minority shareholders of consolidated subsidiaries	(220)	(139)	(1,930)
Payments for purchase of treasury stock	(2)	(1)	(17)
Disposal of treasury stock	89	115	780
Other – net	(22)	(28)	(193)
Net cash used in financing activities	(2,180)	(1,568)	(19,123)
Foreign currency translation adjustments on cash and cash equivalents	(297)	976	(2,605)
Net (decrease) increase in cash and cash equivalents	(444)	1,233	(3,895)
Cash and cash equivalents at beginning of year	15,314	14,081	134,334
Cash and cash equivalents at end of year	¥14,870	¥15,314	$130,439

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 29, 2016

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside of Japan.

In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

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 ¥114 to $1, the approximate rate of exchange at February 29, 2016. Such translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation

The consolidated financial statements as of February 29, 2016, include the accounts of the Company and its 19 (18 in 2015) significant subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in one (one in 2015) associated company is accounted for by the equity method. Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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 these consolidated financial statements, financial statements as of December 31 are used to consolidate foreign 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 that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 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 of accounting for property, plant, and equipment and investment properties and incorporation of cost model of 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 deposit and investment trusts in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

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 of 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.

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

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

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 payments to employees, the Company recorded a reserve equivalent to the amounts recognized as necessary at the end of the period under review based on the projected retirement benefits obligation and the fair value of the pension plan assets at the balance sheet date.

In May 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 an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

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

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are 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, are treated as reclassification adjustments (see Note 16).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, all 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 applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective February 28, 2015, and for (c) above, effective March 1, 2015.

With respect to (c) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis and the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment, and recorded the effect of (c) above as of March 1, 2015, in retained earnings. As a result, liability for retirement benefits as of March 1, 2015, increased by ¥1,497 million ($13,132 thousand), retained earnings as of March 1, 2015, decreased by ¥1,423 million ($12,483 thousand), and operating income and income before income taxes and minority interests for the year ended February 29, 2016, increased by ¥150 million ($1,316 thousand). In addition, basic net income per share and diluted net income per share for the year ended February 29, 2016, increased by ¥3.54 ($0.03) and ¥3.53 ($0.03), respectively.

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.

i. Asset Retirement Obligations

In March 2008, the ASBJ issued 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 the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

j. Stock Options

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.

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.

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 revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions with certain “as-if-capitalized” information disclosed in the notes to the lessee’s financial statements.

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 statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

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.

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

s. Accounting Changes and Error Corrections

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

(1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

t. Changes in Presentation

For the year ended February 29, 2016, Gain on sales of investment securities included in “Other” under Other income (expense) in the previous year, was individually presented in the Statement of Income as the materiality has increased. The amount of Gain on sales of investment securities in the previous year was ¥20 million.

u. New Accounting Pronouncements

Tax Effect Accounting

On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets", which included certain revisions of the previous accounting and auditing guidance issued by JICPA. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the Company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Company expects to apply the new guidance on recoverability of deferred tax assets effective March 1, 2017, and is in process of measuring the effects of applying the new guidance in future applicable periods.

3. Marketable and Investment Securities

Marketable and investment securities at February 29, 2016 and February 28, 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Current:			
Trust fund investments and other		¥ 300	
Corporate and other bonds	¥ 301		$ 2,640
Total	¥ 301	¥ 300	$ 2,640
Non-current:			
Equity securities	¥1,503	¥2,570	$13,184
Corporate and other bonds		502	
Trust fund investments and other	96	92	842
Total	¥1,599	¥3,164	$14,026

The costs and aggregate fair values of securities classified as available-for-sale at February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen			
2016	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	¥1,227	¥357	¥151	¥1,433
Corporate and other bonds	300	1		301
Trust fund investments and other	29	22		51

	Millions of yen			
2015	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	¥1,492	¥1,011		¥2,503
Corporate and other bonds	496	6		502
Trust fund investments and other	329	40		369

2016	Thousands of U.S. dollars (Note 1) Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**$10,763**	**$3,132**	**$1,325**	**$12,570**
Corporate and other bonds	**2,631**	**9**		**2,640**
Trust fund investments and other	**254**	**193**		**447**

Proceeds from sales of available-for-sale securities for the years ended February 29, 2016 and February 28, 2015, were ¥1,639 million ($14,377 thousand) and ¥480 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended February 29, 2016, were ¥271 million ($2,377 thousand) and nil, respectively, and for the year ended February 28, 2015, were ¥27 million and nil, respectively.

4. Short-term Investments

Short-term investments at February 29, 2016 and February 28, 2015, consisted of the following:

	Millions of yen 2016	2015	Thousands of U.S. dollars (Note 1) 2016
Deposits over three-month period	**¥ 715**	¥ 660	**$ 6,272**
Trust beneficiary rights and other investments	**880**	1,509	**7,719**
Total	**¥1,595**	¥2,169	**$13,991**

5. Inventories

Inventories at February 29, 2016 and February 28, 2015, consisted of the following:

	Millions of yen 2016	2015	Thousands of U.S. dollars (Note 1) 2016
Merchandise	**¥ 578**	¥ 523	**$ 5,070**
Finished products	**11,293**	9,876	**99,061**
Work in process	**3,773**	3,504	**33,097**
Raw materials and supplies	**2,201**	2,537	**19,307**
Total	**¥17,845**	¥16,440	**$156,535**

6. Long-lived Assets

The Group reviewed its long-lived assets for impairment as of February 29, 2016, and recognized impairment losses of ¥98 million ($860 thousand) as other expenses for certain unutilized assets due to the planned demolition.

The carrying amounts of the related assets were written down to the memorandum value. No impairment loss was recognized in 2015.

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

Short-term bank loans at February 29, 2016 and February 28, 2015, consisted of bank overdrafts. The annual interest rates applicable for the years ended February 29, 2016 and February 28, 2015, were 0.27% and 0.30%, respectively.

Long-term debt at February 29, 2016 and February 28, 2015, consisted of the following:

	Millions of yen 2016	2015	Thousands of U.S. dollars (Note 1) 2016
Lease obligations	**¥57**	¥53	**$500**
Less: current portion	**18**	18	**158**
Long-term debt, less current portion	**¥39**	¥35	**$342**

Annual maturities of long-term debt at February 29, 2016, were as follows:

Years ending February 28 or 29	Millions of yen	Thousands of U.S. dollars (Note 1)
2017	¥18	$158
2018	16	140
2019	13	114
2020	7	61
2021	2	18
2022 and thereafter	1	9
Total	¥57	$500

8. 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.

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

(1) The changes in defined benefit obligation for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥8,313	¥8,036	$72,921
Cumulative effect of accounting change	1,497		13,132
Balance at beginning of year (as restated)	9,810	8,036	86,053
Current service cost	137	283	1,201
Interest cost	105	104	921
Actuarial gains and losses	110	165	965
Benefits paid	(400)	(274)	(3,509)
Balance at end of year	¥9,762	¥8,314	$85,631

(2) The changes in plan assets for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Balance at beginning of year	¥8,192	¥7,149	$71,860
Expected return on plan assets	204	179	1,789
Actuarial gains and losses	(486)	612	(4,263)
Contributions from the employer	526	526	4,614
Benefits paid	(400)	(274)	(3,509)
Balance at end of year	¥8,036	¥8,192	$70,491

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of February 29, 2016 and February 28, 2015.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Funded defined benefit obligation	¥ 9,717	¥ 8,269	$ 85,237
Plan assets	(8,036)	(8,192)	(70,491)
Total	1,681	77	14,746
Unfunded defined benefit obligation	45	45	394
Net liability arising from defined benefit obligation	¥ 1,726	¥ 122	$ 15,140

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Liability for retirement benefits	¥1,726	¥122	$15,140
Net liability arising from defined benefit obligation	¥1,726	¥122	$15,140

(4) The components of net periodic benefit costs for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Service cost	¥ 137	¥ 283	$ 1,201
Interest cost	105	104	921
Expected return on plan assets	(204)	(179)	(1,789)
Recognized net actuarial gains and losses	46	(28)	404
Amortization of prior-service cost	(36)	(36)	(316)
Net periodic benefit costs	¥ 48	¥ 144	$ 421

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended February 29, 2016 and February 28, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Prior-service cost	¥ (35)		$ (307)
Actuarial gains and losses	(550)		(4,825)
Total	¥(585)		$(5,132)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 29, 2016 and February 28, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Unrecognized prior-service cost	¥ (6)	¥ (42)	$ (52)
Unrecognized actuarial gains and losses	880	330	7,719
Total	¥874	¥288	$7,667

(7) Plan assets

a. Components of plan assets

Plan assets as of February 29, 2016 and February 28, 2015, consisted of the following:

	2016	2015
Debt investments	23%	21%
Equity investments	20	24
General account	35	33
Others	22	22
Total	100%	100%

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

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

(8) Assumptions used for the years ended February 29, 2016 and February 28, 2015, are set forth as follows:

	2016	2015
Discount rate	1.1%	1.3%
Expected rate of return on plan assets	2.5%	2.5%
Expected rate of salary increase	3.0%	3.0%

(9) Defined contribution pension plan

The amounts of the required contribution to the defined contribution plans of the consolidated subsidiaries were ¥139 million ($1,219 thousand) and ¥126 million for the years ended February 29, 2016 and February 28, 2015, respectively.

9. Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below.

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. 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 within equity under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. Stock Options

The stock options outstanding as of February 29, 2016, 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
2013 Stock Option	6 directors 2 officers 12 employees 18 directors of subsidiaries	192,000 shares	July 5, 2013	¥1,119	From June 29, 2015 to June 28, 2019
2014 I Stock Option	5 directors	23,100 shares	June 9, 2014	¥ 1	From June 9, 2014 to June 8, 2044
2014 II Stock Option	5 directors 4 officers 18 employees 9 directors of subsidiaries	183,000 shares	July 15, 2014	¥1,466	From July 1, 2016 to June 30, 2020
2015 I Stock Option	6 directors	17,100 shares	June 15, 2015	¥ 1	From June 15, 2015 to June 14, 2045
2015 II Stock Option	5 directors 3 officers 16 employees 9 directors of subsidiaries	154,000 shares	June 15, 2015	¥2,203	From June 30, 2017 to June 29, 2021

The stock option activity was as follows:

	Shares						
	2011 Stock Option	2012 Stock Option	2013 Stock Option	2014 I Stock Option	2014 II Stock Option	2015 I Stock Option	2015 II Stock Option
Year ended February 28, 2015							
Non-vested							
February 28, 2014 – Outstanding		113,000	192,000				
Granted				23,100	183,000		
Canceled			2,000				
Vested		113,000		23,100			
February 28, 2015 – Outstanding			190,000		183,000		
Vested							
February 28, 2014 – Outstanding	102,200						
Vested		113,000		23,100			
Exercised	75,200	53,500					
Canceled							
February 28, 2015 – Outstanding	27,000	59,500		23,100			
Year ended February 29, 2016							
Non-vested							
February 28, 2015 – Outstanding			190,000		183,000		
Granted						17,100	154,000
Canceled					2,000		2,000
Vested			190,000			17,100	
February 29, 2016 – Outstanding					181,000		152,000
Vested							
February 28, 2015 – Outstanding	27,000	59,500		23,100			
Vested			190,000			17,100	
Exercised	16,000	37,500	38,700	2,100			
Canceled							
February 29, 2016 – Outstanding	11,000	22,000	151,300	21,000		17,100	
Exercise price	¥ 935	¥ 827	¥1,119	¥ 1	¥1,466	¥ 1	¥2,203
Average stock price at exercise	¥2,013	¥1,952	¥1,834	¥2,079			
Fair value price at grant date	¥ 254	¥ 167	¥ 191	¥1,209	¥ 265	¥1,995	¥ 407

The assumptions used to measure fair value of the 2015 I Stock Options were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	30.24%
Estimated remaining outstanding period:	5 years
Estimated dividend:	¥44.00 per share
Risk free interest rate:	0.118%

The assumptions used to measure fair value of the 2015 II Stock Options were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	29.08%
Estimated remaining outstanding period:	4 years
Estimated dividend:	¥44.00 per share
Risk free interest rate:	0.057%

11. 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 34.8% and 37.2% for the years ended February 29, 2016 and February 28, 2015, respectively.

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

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Current:			
Deferred tax assets			
Tax loss carryforwards	¥ 338	¥ 448	$ 2,965
Accrued bonuses	237	306	2,079
Inventories	219	234	1,921
Unrealized profit on inventories	138	229	1,211
Allowance for doubtful receivables	19	19	167
Other – net	121	145	1,061
Less valuation allowance	(427)	(555)	(3,746)
Total	645	826	5,658
Deferred tax liabilities			
Undistributed earnings of associated companies	(915)	(1,016)	(8,027)
Tax-deductible inventory losses	(45)	(53)	(395)
Other – net	(56)	(76)	(491)
Total	(1,016)	(1,145)	(8,913)
Net deferred tax assets (liabilities)	¥ (371)	¥ (319)	$ (3,255)
Non-current:			
Deferred tax assets			
Tax loss carryforwards	¥ 1,062	¥ 1,368	$ 9,316
Liability for retirement benefits	270	15	2,368
Depreciation	210	222	1,842
Write-down of investment securities	117	163	1,026
Impairment loss	51	61	447
Other – net	242	243	2,123
Less valuation allowance	(1,798)	(1,876)	(15,772)
Total	154	196	1,350
Deferred tax liabilities			
Unrealized gain on available-for-sale securities	(46)	(242)	(404)
Reserve for special depreciation	(31)	(40)	(272)
Property, plant and equipment	(17)	(19)	(149)
Other – net	(25)	(27)	(219)
Total	(119)	(328)	(1,044)
Net deferred tax assets (liabilities)	¥ 35	¥ (132)	$ 306

A reconciliation between the normal effective statutory tax rate for the years ended February 29, 2016 and February 28, 2015, and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2016	2015
Normal effective statutory tax rate	34.8%	37.2%
Valuation allowance	(8.0)	(13.5)
Undistributed earnings of associated companies	3.1	4.9
Effect of foreign tax rate differences	(2.5)	(6.2)
Unrealized profit on inventories	(0.4)	(0.6)
Other – net	1.6	(0.7)
Actual effective tax rate	28.6%	21.1%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate from approximately 31.6% to 30.2% for the fiscal year beginning on or after April 1, 2016, and to 30.0% for the fiscal year beginning on or after April 1, 2017. The impact of this change is insignificant.

12. Research and Development Costs

Research and development costs charged to income were ¥2,005 million ($17,588 thousand) and ¥1,948 million for the years ended February 29, 2016 and February 28, 2015, respectively.

13. Leases

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

Obligations under non-cancelable operating leases at February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Due within one year	¥ 84	¥ 89	$ 737
Due after one year	259	329	2,272
Total	¥343	¥418	$3,009

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 the 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 are exposed to risks of interest rate fluctuations, but all of such loans 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 liquidity risk. The Group manages this risk through periodic financial planning by each Group company.

(3) Fair Values of Financial Instruments

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

(a) Fair Value of Financial Instruments

February 29, 2016	Millions of yen Carrying amount	Fair value	Unrealized gain/loss	Thousands of U.S. dollars (Note 1) Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥14,870	¥14,870		$130,439	$130,439	
Marketable and investment securities	1,785	1,785		15,658	15,658	
Short-term investments	1,595	1,595		13,991	13,991	
Trade receivables	14,149	14,149		124,114	124,114	
Total	¥32,399	¥32,399		$284,202	$284,202	
Trade payables	¥ 7,317	¥ 7,317		$ 64,184	$ 64,184	
Short-term bank loans	2,000	2,000		17,544	17,544	
Total	¥ 9,317	¥ 9,317		$ 81,728	$ 81,728	
Derivatives	¥ 160	¥ 160		$ 1,404	$ 1,404	

February 28, 2015	Millions of yen Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥15,314	¥15,314	
Marketable and investment securities	3,374	3,374	
Short-term investments	2,169	2,169	
Trade receivables	14,808	14,808	
Total	¥35,665	¥35,665	
Trade payables	¥ 9,180	¥ 9,180	
Short-term bank loans	2,000	2,000	
Total	¥11,180	¥11,180	
Derivatives	¥ (148)	¥ (148)	

Cash and cash equivalents and short-term investments

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

Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market prices of the stock exchange for equity instruments, and at the quoted prices obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 3.

Trade receivables

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

Trade payables and short-term bank loans

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

Derivatives

Information on the 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 2016	2015	Thousands of U.S. dollars (Note 1) 2016
Investments in equity instruments that do not have a quoted market price in an active market	¥ 70	¥ 67	$ 614
Investments in unconsolidated subsidiaries and associated companies	313	306	2,745
Investments in limited partnerships	45	23	395
Total	¥428	¥396	$3,754

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

February 29, 2016	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	Millions of yen			
Cash and cash equivalents	¥14,870			
Marketable and investment securities	300	¥ 45		
Short-term investments	1,595			
Trade receivables	13,214	935		
Total	¥29,979	¥980		

February 28, 2015	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	Millions of yen			
Cash and cash equivalents	¥15,314			
Marketable and investment securities	400	¥ 400	¥23	
Short-term investments	2,169			
Trade receivables	13,663	1,145		
Total	¥31,546	¥1,545	¥23	

February 29, 2016	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	Thousands of U.S. dollars (Note 1)			
Cash and cash equivalents	$130,439			
Marketable and investment securities	2,632	$ 394		
Short-term investments	13,991			
Trade receivables	115,912	8,202		
Total	$262,974	$8,596		

15. Derivatives

Derivative transactions to which hedge accounting is not applied

At February 29, 2016	Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
	Millions of yen			
Foreign currency forward contracts:				
Receivables	¥3,911		¥208	¥208
Payables	1,550		(48)	(48)
Total	¥5,461		¥160	¥160

At February 28, 2015	Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
	Millions of yen			
Foreign currency forward contracts:				
Receivables	¥3,647		¥ (48)	¥ (48)
Payables	2,667		(100)	(100)
Total	¥6,314		¥(148)	¥(148)

At February 29, 2016	Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
	Thousands of U.S. dollars (Note 1)			
Foreign currency forward contracts:				
Receivables	$34,307		$1,825	$1,825
Payables	13,597		(421)	(421)
Total	$47,904		$1,404	$1,404

16. Other Comprehensive Income

The components of other comprehensive income for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Unrealized (loss) gain on available-for-sale securities:			
(Losses) gains arising during the year	¥ (563)	¥ 513	$ (4,939)
Reclassification adjustments to profit or loss	(267)	(16)	(2,342)
Amount before income tax effect	(830)	497	(7,281)
Income tax effect	196	(159)	1,719
Total	¥ (634)	¥ 338	$ (5,562)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (735)	¥2,730	$ (6,446)
Total	¥ (735)	¥2,730	$ (6,446)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (596)		$ (5,228)
Reclassification adjustments to profit or loss	11		96
Total	¥ (585)		$ (5,132)
Share of other comprehensive income in an associate:			
Gains arising during the year		¥ 37	
Total		¥ 37	
Total other comprehensive income	¥(1,954)	¥3,105	$(17,140)

17. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 29, 2016 and February 28, 2015, was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income	Weighted-average shares	EPS	
Year ended February 29, 2016				
Basic EPS				
Net income attributable to common shareholders	¥3,721	42,290	¥ 87.98	$0.77
Effect of dilutive securities				
Stock acquisition rights		140		
Diluted EPS				
Net income for computation	¥3,721	42,430	¥ 87.69	$0.77
Year ended February 28, 2015				
Basic EPS				
Net income attributable to common shareholders	¥4,696	42,167	¥111.36	
Effect of dilutive securities				
Stock acquisition rights		118		
Diluted EPS				
Net income for computation	¥4,696	42,285	¥111.05	

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 three reportable segments: “Special Products,” “Machine Tools,” and “Precision Products.”

“Special Products” produces and sells POS printers, visual cards, readers/writers 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 with those disclosed in Note 2, “Summary of Significant Accounting Policies.”

As described in Note 2.h, the Company changed its method of computing accrued pension and severance costs and retirement benefit costs from the year ended February 29, 2016. Accordingly, the method of computing accrued pension and severance costs and retirement benefit costs by each reportable segment has also been changed.

As a result of this change, segment profits of “Special Products,” “Machine Tools,” and “Precision Products” for the year ended February 29, 2016, increased by ¥42 million ($366 thousand), ¥56 million ($494 thousand), and ¥15 million ($136 thousand), respectively, as compared with the figures calculated using the previous method.

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

Millions of yen

	Reportable Segment					
2016	Special Products	Machine Tools	Precision Products	Total	Reconciliations	Consolidated
Sales to external customers	¥11,381	¥38,150	¥4,927	¥54,458		¥54,458
Intersegment sales or transfers						
Total	11,381	38,150	4,927	54,458		54,458
Segment profit	¥ 1,542	¥ 5,843	¥ 593	¥ 7,978	¥(2,243)	¥ 5,735
Segment assets	¥ 9,515	¥42,540	¥7,492	¥59,547	¥ 8,281	¥67,828
Other items:						
Depreciation	229	1,237	636	2,102	172	2,274
Investments in associates	309			309		309
Increase in property, plant and equipment and intangible assets	257	1,133	626	2,016	259	2,275

2015	Reportable Segment: Special Products (Millions of yen)	Reportable Segment: Machine Tools	Reportable Segment: Precision Products	Reportable Segment: Total	Reconcilia-tions	Consolidated
Sales to external customers	¥11,555	¥34,578	¥4,825	¥50,958		¥50,958
Intersegment sales or transfers						
Total	11,555	34,578	4,825	50,958		50,958
Segment profit	¥ 1,739	¥ 5,399	¥ 693	¥ 7,831	¥(2,354)	¥ 5,477
Segment assets	¥ 9,865	¥42,226	¥8,456	¥60,547	¥ 9,714	¥70,261
Other items:						
Depreciation	184	1,007	573	1,764	160	1,924
Investments in associates	302			302		302
Increase in property, plant and equipment and intangible assets	205	1,389	312	1,906	199	2,105

2016	Reportable Segment: Special Products (Thousands of U.S. dollars (Note 1))	Reportable Segment: Machine Tools	Reportable Segment: Precision Products	Reportable Segment: Total	Reconcilia-tions	Consolidated
Sales to external customers	$99,834	$334,649	$43,219	$477,702		$477,702
Intersegment sales or transfers						
Total	99,834	334,649	43,219	477,702		477,702
Segment profit	$13,526	$ 51,254	$ 5,202	$ 69,982	$(19,675)	$ 50,307
Segment assets	$83,465	$373,158	$65,719	$522,342	$ 72,640	$594,982
Other items:						
Depreciation	2,009	10,851	5,579	18,439	1,508	19,947
Investments in associates	2,711			2,711		2,711
Increase in property, plant and equipment and intangible assets	2,254	9,939	5,491	17,684	2,272	19,956

Notes: 1. Reconciliations recorded for segment profit include corporate expenses that are not allocated to any reportable segment. Corporate expenses principally consist of general corporate expenses incurred by the Administration Headquarters of the Company.
2. Reconciliations recorded for segment assets include corporate assets that are not allocated to any reportable segment. Corporate assets principally consist of assets maintained by the Administration Headquarters of the Company and consist principally of excess funds under management (cash and cash equivalents) 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 in the accompanying consolidated statement of income.

Related Information

1. Related information by geographical area at February 29, 2016 and February 28, 2015, consisted of the following:

(1) Net Sales

2016 (Millions of yen)	Japan	USA	Germany	China	Others	Total
	¥8,729	¥12,566	¥7,339	¥6,543	¥19,281	¥54,458

2015 (Millions of yen)	Japan	USA	Germany	China	Others	Total
	¥8,951	¥12,123	¥6,629	¥5,320	¥17,935	¥50,958

2016 (Thousands of U.S. dollars (Note 1))	Japan	USA	Germany	China	Others	Total
	$76,570	$110,228	$64,377	$57,395	$169,132	$477,702

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

(2) Property, Plant and Equipment

2016	Japan	Thailand	China	Others	Total
Millions of yen					
	¥6,680	¥4,457	¥2,196	¥1,027	¥14,360

2015	Japan	Thailand	China	Others	Total
Millions of yen					
	¥6,561	¥5,209	¥2,422	¥1,117	¥15,309

2016	Japan	Thailand	China	Others	Total
Thousands of U.S. dollars (Note 1)					
	$58,597	$39,096	$19,263	$9,009	$125,965

2. Information for impairment loss of long-lived assets by reportable segments at February 29, 2016, was as follows:

Millions of yen	Reportable Segment					
2016	Special Products	Machine Tools	Precision Products	Total	Eliminations or Cooperate	Consolidated
		¥64	¥34	¥98		¥98

Thousands of U.S. dollars (Note 1)	Reportable Segment					
2016	Special Products	Machine Tools	Precision Products	Total	Eliminations or Cooperate	Consolidated
		$562	$298	$860		$860

19. Related Party Disclosures

Transactions of the Company with directors for the years ended February 29, 2016 and February 28, 2015, were as follows:

Year ended February 29, 2016

Related party	Category	Description of transaction	Millions of yen	Thousands of U.S. dollars (Note 1)
Junichi Murakami	Director	Exercise of stock options	¥12	$105

Year ended February 28, 2015

Related party	Category	Description of transaction	Millions of yen
Hajime Sato	President & CEO	Exercise of stock options	¥18
Takashi Kuramae	Director	Exercise of stock options	¥12
Junichi Murakami	Director	Exercise of stock options	¥12

20. Subsequent Event

The following appropriation of retained earnings at February 29, 2016, is to be approved at the Company's shareholders' meeting held on May 26, 2016:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥23 ($0.202) per share	¥973	$8,535

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 its consolidated subsidiaries as of February 29, 2016, 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 accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 its consolidated subsidiaries as of February 29, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

May 13, 2016

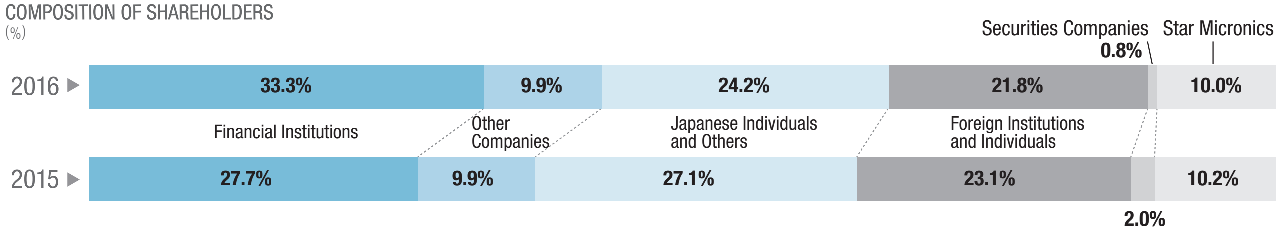
Member of
Deloitte Touche Tohmatsu Limited

Stock Information

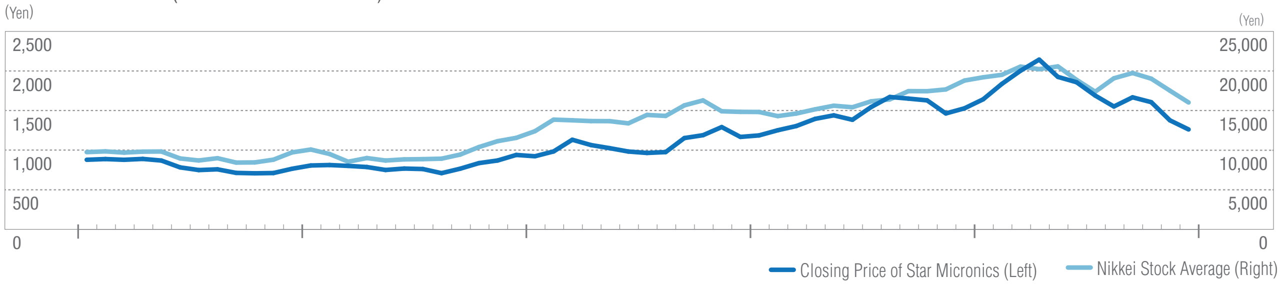
as of February 29, 2016

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
Paid-in Capital		12,721,939,515 yen		1-4-5 Marunouchi, Chiiyoda,
Number of Shareholders		10,097		Tokyo 100-8212 Japan

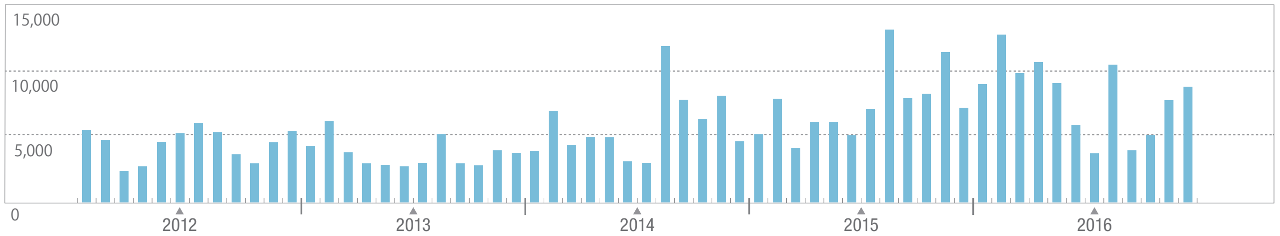
COMPOSITION OF SHAREHOLDERS
(%)



STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)
(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	2012	2013	2014	2015	**2016**
At year-end	807	943	1,178	1,550	**1,192**
High	958	988	1,422	1,885	**2,238**
Low	657	647	857	1,115	**1,125**

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