Precision in a Changing World

ANNUAL REPORT 2018 (PDF Version)

For the year ended February 28, 2018

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 83% and a ratio of overseas production to all production of 78%, 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 Management Plan

Medium-Term Vision

As a global niche company, our goal is to enhance the prosperity and well-being of all stakeholders by distributing the added-value created through efforts aimed at combining the strengths of advanced software and precision processing technologies that help maximize customer satisfaction.

Basic Policies

1. Reform Existing Businesses

- Pursue precision processing technologies that are vital to an IoT society
- Transition to a business entity that incorporates software technology
- Work toward a production system that maximizes added-value

2. Create and Nurture New Businesses

- Create a fourth major business pillar (through various initiatives including M&A and business alliances)
- Cultivate new businesses and products (Vibration Power Generators, Cloud Service Business, etc.)

3. Evolve into a Genuine Global Company

- Educate, train and assign global human resources
- Further strengthening of sales channels

Progress under the Medium-Term Management Plan

Achievements and Challenges

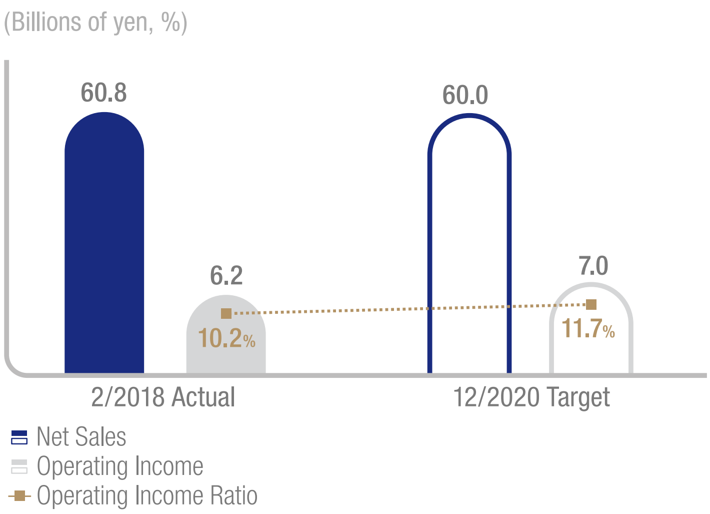
Strategies (Principal Initiatives)	Achievements and Challenges
Special Products ■ Develop high-value-added products ■ Reorganize sales bases in Europe in light of the U.K.'s impending withdrawal from the European Union ■ Reduce costs by increasing supply chain efficiency	■ Launched mCollection™, a new brand of peripherals for the mPOS market ■ Established a new European sales base in Germany ■ Reorganize the business division with a view to strengthening supply chain management
Machine Tools ■ Release a series of fixed headstock automatic lathes ■ Develop IoT-related software ■ Shorten lead times and reduce inventories through modular design and production ■ Strengthen service systems in China	■ Pursue the development of fixed headstock automatic lathes ■ Pursued the development of operation monitoring systems ■ Upgraded and expanded the lineup of modular design and production products ■ Resolved to construct a new factory building at the Company's Dalian Plant in China

Achievements and Challenges

Strategies (Principal Initiatives)	Achievements and Challenges
Precision Products ■ Cultivate new customers and markets ■ Streamline production and promote automation ■ Increase operating rates utilizing IoT	■ Reorganize overseas production bases to address the drop in demand for HDD components ■ Newly introduce automated and unmanned equipment
New Business ■ M&A and business alliances, etc. ■ Vibration Power Generators ■ Cloud Services	■ Promote business alliances ■ Withdrew from the vibration power generator business ■ Reviewed the cloud service business structure and systems

Performance Targets

Star Micronics plans to change the term of its next fiscal period from February to December. As a result, the Company will also realign the quantitative targets initially set for the fiscal year ending February 28, 2021 under its Medium-Term Management Plan to the fiscal year ending December 31, 2020.



		2/2018 Actual	12/2020 Plan
Exchange Rate	US$	¥112.19	¥110.00
	EUR	¥126.66	¥115.00

Financial Target

	2/2018 Actual	12/2020 Target
Net Sales	¥60.8 billion	¥60.0 billion
Operating Income	¥6.2 billion	¥7.0 billion
Operating Income Ratio	10.2%	11.7%
Return on Equity (ROE)	12.9%	12.0% or more

Returns to Shareholders

	2/2018 Actual	12/2020 Target
Total Payout Ratio	53.1%	50.0% or more
DOE	4.3%	4.5% or more
Dividends per Share	¥52	¥60

Financial Highlights

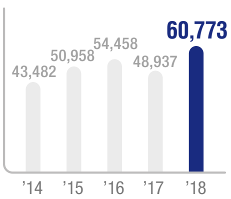
Financial Highlights | Related Information by Geographical Region

Star Micronics Co., Ltd. and Consolidated Subsidiaries
For the years ended February 2016, 2017 and 2018

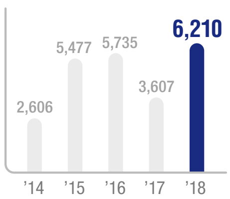
	Millions of yen			Change (%)	Thousands of U.S. dollars
	2016	2017	2018	2018/2017	2018
For the year :					
Net sales	¥54,458	¥48,937	¥60,773	24.2	$567,972
Operating income	5,735	3,607	6,210	72.2	58,037
Net income attributable to owners of the parent	3,721	3,181	5,781	81.7	54,028
Return on sales	6.8%	6.5%	9.5%		
Capital expenditures	2,275	1,441	3,505	143.2	32,757
Depreciation and amortization	2,274	2,167	2,198	1.4	20,542
At year-end :					
Total assets	67,828	68,351	77,363	13.2	723,019
Total equity	50,200	43,755	47,447	8.4	443,430
Equity ratio	72.7%	62.8%	60.1%		
	Yen			Change (%)	U.S. dollars
Per share :					
Basic net income	¥87.98	¥81.77	¥155.68	90.4	$1.45
Diluted net income	87.69	74.69	136.90	83.3	1.28
Cash dividends applicable to the year	46.00	48.00	52.00	8.3	0.49
Stock information :					
Common shares issued	47,033,234	47,033,234	46,774,634		
Number of shareholders	10,097	8,730	8,906		

Note : The rate of ¥107 to US$1, prevailing on February 28, 2018, has been used for translation into U.S. dollar amounts.

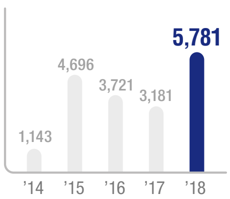
NET SALES
(Millions of yen)



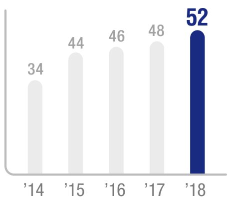
OPERATING INCOME
(Millions of yen)



NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT
(Millions of yen)



CASH DIVIDENDS APPLICABLE TO THE YEAR
(Yen)



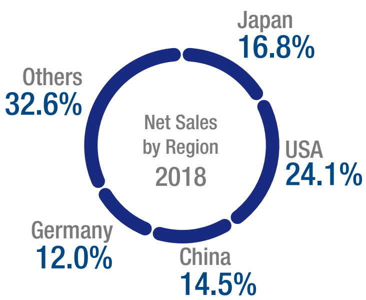
Related Information by Geographical Region

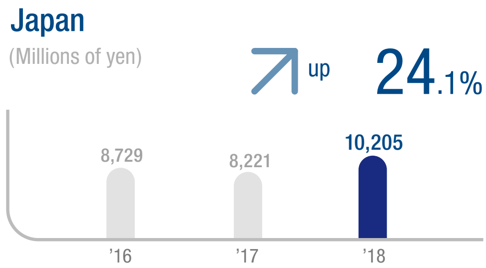
Star Micronics Co., Ltd. and Consolidated Subsidiaries
For the years ended February 2016, 2017 and 2018

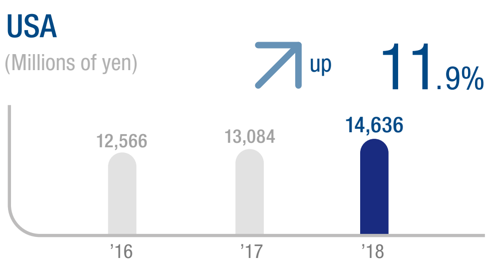
Net Sales by Geographical Region

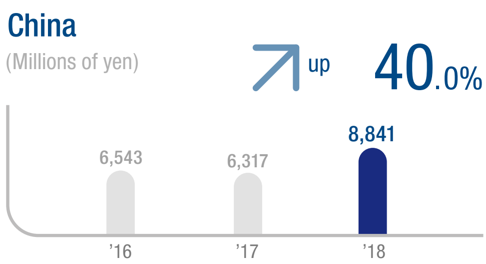
	Millions of yen			Change (%)	Thousands of U.S. dollars
	2016	2017	2018	2018/2017	2018
Japan	¥ 8,729	¥ 8,221	¥ 10,205	24.1	$ 95,374
USA	12,566	13,084	14,636	11.9	136,785
China	6,543	6,317	8,841	40.0	82,626
Germany	7,339	5,836	7,323	25.5	68,439
Others	19,281	15,479	19,768	27.7	184,748
Total	54,458	48,937	60,773	24.2	567,972

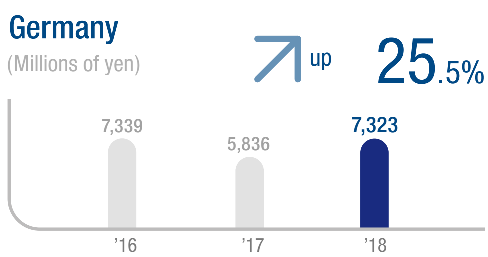
Note : The rate of ¥107 to US$1, prevailing on February 28, 2018, has been used for translation into U.S. dollar amounts.

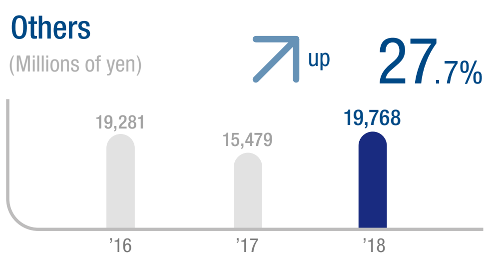












To Our Shareholders

In fiscal 2018, the fiscal year ended February 28, 2018, the Star Micronics Group posted strong financial results. This was largely due to the Machine Tools Segment's robust performance against the backdrop of active global demand. Changes in the structure of industry attributable to labor-saving capital expenditures mainly in the automobile industry and increased use of Internet of Things (IoT) are also helping to drive the Group forward. Looking ahead, we will continue to steadfastly carry out the principal initiatives identified under the Medium-Term Management Plan while making every effort to realize our Medium-Term Vision.

01 A Robust Machine Tools Segment Contributing to Strong Financial Results

02 New Machine Tools Demand Attributable to Changes in the Structure of Industry

03 mPOS Entering a Period of Increasingly Widespread Use

04 Establishing a Management Platform as a Truly Global Company

05 Outlook for the Next Fiscal Year

06 Toward Enhancing Corporate Value

01 A Robust Machine Tools Segment Contributing to Strong Financial Results

In the fiscal year under review, net sales totaled ¥60,773 million, up 24.2% compared with the previous fiscal year. From a profit perspective, operating income surged 72.2% year on year, to ¥6,210 million. Despite reporting an impairment loss with respect to a Precision Products Segment consolidated subsidiary in Thailand and other factors, net income attributable to owners of the parent surged 81.7% compared with the fiscal year ended February 28, 2017, to ¥5,781 million. This was mainly due to the posting of deferred tax assets.

The Star Micronics Group's strong performance can largely be attributed to significant growth in the mainstay Machine Tools Segment where sales hit a record high. As far as the Group's other segments are concerned, Precision Products sales declined slightly owing to a slowdown in the non-wristwatch components field. On a positive note, trends in the Special Products Segment remained firm.

NET SALES

(Millions of yen, %)

Since assuming the position of Star Micronics' CEO in March 2017, I am pleased to report that the Company has closed the business year in an extremely strong position. Over the past 12 months, I have made it my mission to gather the information necessary to make the most appropriate decisions by placing the utmost importance on first-hand communication while ascertaining the ins and outs at each segment frontline. Looking ahead, we will continue to focus on each actual worksite and promote a decision-making process that is capable of addressing changes in the market in real time.

02 New Machine Tools Demand Attributable to Changes in the Structure of Industry

Results in the Machine Tools Segment substantially exceeded the previous fiscal year across all regions both in Japan and overseas. We are convinced that changes in the structure of global industry brought about by labor-saving capital expenditures mainly in the automotive industry as well as the growing trend toward an IoT society are a major force behind these results.

In Europe, we are witnessing the so-called "Industry 4.0" phenomenon increasingly take hold with strong investment in production facilities. As a result, interest in the Group's machine tools and in particular automatic lathes is blossoming. As the name suggests, this reflects the ability of our products to facilitate across-the-board automation from the setting of materials to processing thereby addressing robotics, labor-saving and other needs.

The fact that the automobile industry has entered a period of technological innovation is also a major factor in the Machine Tools Segment's performance. Amid the downsizing of engines and trend toward increased functionality and sophistication including the multi-staging of gears, demand for machine tools that are capable of producing compact components with improved precision is increasing. Looking further into the future, we expect that developments in automated driving technologies and the growing penetration of next-generation electric, hydrogen and other vehicles will trigger the need for new component machining.

Despite this robust demand, we recognize the importance of rationally determining how long these favorable conditions can be expected to continue. Having said this, we remain comforted by the growing number of users that continues to expand, which in turn is projected to underpin an upswing in future replacement demand.

03 mPOS Entering a Period of Increasingly Widespread Use

In the U.S., which is widely regarded as the pioneer market, demand for mobile POS (mPOS)* systems continues to expand at a modest pace. There are also signs of expanding use in Japan. In Europe, there are indications that major banks are entering the POS business. Taking into account these and other factors, we are projecting increased demand for the Group's mPOS printers in the future.

Under these circumstances, Star Micronics established a sales base in Germany as a branch of its special products sales subsidiary in the U.K. in April 2017. Through this, the Company has strengthened its mPOS printer marketing capabilities on the European continent.

In Japan, business conditions are becoming increasingly conducive to the introduction of mPOS systems. This takes into account such factors as the energy generated by the upcoming 2020 Tokyo Olympic and Paralympic Games, steps to put in place an infrastructure for increased credit card use and the anticipated demand for innovative POS systems to accommodate consumption tax being reduced for selected items.

While Star Micronics has continued to bring to the market mPOS printers ahead of its rivals, the reality is that competition is gradually increasing. On this basis, it is vital that we ramp up efforts to develop high-value-added products while enhancing cost competitiveness. With this in mind, we will launch the mCollection™ peripheral devices brand, which combines high functionality with a stylish design, in June 2018 in a bid to further differentiate our products. At the same time, we will work to reduce costs by rebuilding logistics bases and the supply chain.

* 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.

04 Establishing a Management Platform as a Truly Global Company

Fiscal 2018 was the first year of the Star Micronics Group's Medium-Term Management Plan. This plan provides a roadmap through to the fiscal year ending December 31, 2020, when the Company will celebrate its 70th anniversary. Buoyed by the strong performance of the Machine Tools Segment, Star Micronics is within sight of its goals set for the final year of the Medium-Term Management Plan. Despite robust results, however, we do not measure the plan's success purely in quantitative terms.

Looking at the Machine Tools Segment, where demand is expected to remain at a high level, we recognize the need to ensure stable product supply. Currently, the Group maintains three production bases in China, Thailand and Japan. Each of these plants continues to operate at full capacity. In order to further boost production capacity, we are constructing a new facility at the Group's existing Dalian Plant in China. Plans are in place for this new facility to come online in January 2019.

In the Precision Products Segment, stagnant conditions in the non-wristwatch components field is an issue of considerable concern. Buffeted by the drop in demand for HDD components, traditionally a mainstay product, we will look to cultivate new customers and markets utilizing our network in Japan and overseas. We will also work diligently to increase profitability by engaging in a variety of activities including reorganization of overseas production bases.

As far as new businesses are concerned, we decided to terminate our activities in the vibration power generator field. This decision was based on the verification tests undertaken to date and the difficulties involved in quickly initiating commercial operations. Turning to the Group's work in cloud computing services, steps were taken to conduct a review of structures and systems. Based on this review, we dissolved the U.S. subsidiary responsible for the planning, marketing and other functions, and intend to continue these services as a high-value-added option under the Special Products Segment. In the future, we will continue to assess the viability of M&As, business alliances and other opportunities in fields where we can maximize the strengths of the Star Micronics Group. In this manner, we will channel our energies toward creating a fourth pillar of business.

Currently, the structure of industry is entering a period of change as typified by trends in IoT, artificial intelligence and Industry 4.0. Against this backdrop, society's needs and expectations toward the Star Micronics Group, which maintains a considerable competitive advantage through its precision processing technologies, are mounting. In order to meet these expectations, and to secure a firm foothold on the world stage, we recognize the important need to carry out our Medium-Term Management Plan. To this end, we will put in place a management platform that befits a truly global company. We will, for example, strengthen the corporate governance function while developing and utilizing human resources who can excel on the world stage. Guided by our Medium-Term Vision, we will enhance the prosperity and well-being of all stakeholders by distributing the added-value created through efforts aimed at combining the strengths of advanced software and precision processing technologies that help maximize customer satisfaction as a global niche company.

05 Outlook for the Next Fiscal Year

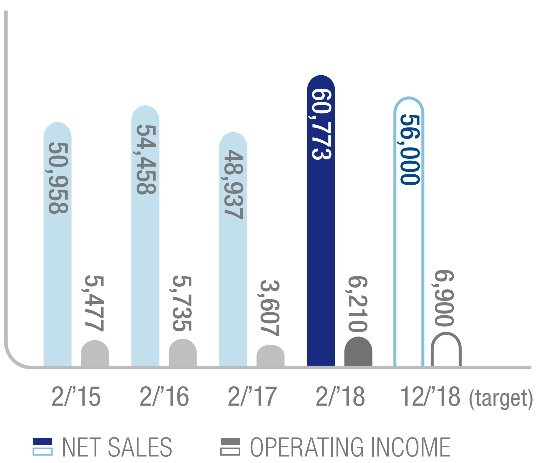
Looking at consolidated results for the fiscal year ending December 31, 2018, the mainstay Machine Tools Segment is projected to confront a mixed operating environment. While demand is expected to remain strong, there are concerns that the tight supply of procurement parts and components will have a negative impact. Turning to the Special Products Segment, trends in mPOS-related printers are anticipated to remain firm. In the Precision Products Segment, sales of both wristwatch and non-wristwatch components are projected to stall.

Accounting for each of these factors, net sales are projected to come in at ¥56,000 million, operating income to reach ¥6,900 million and net income attributable to owners of parent to amount to ¥5,400 million in next fiscal period.

Meanwhile, Star Micronics has decided to change its traditional account settlement date (fiscal year-end) from the last day of February to December 31 effective from fiscal 2018, redefined as the fiscal year ending December 31, 2018. The Company also intends to unify the fiscal period for all its consolidated subsidiaries, to promote integrated Group operations, and further enhance management transparency through the timely and adequate disclosure of financial and business information. Taking into consideration the aforementioned, and the fact that the fiscal period ending December 31, 2018 represents a transitional period, data will be based on and presented for the 10-month period from March 1, 2018 to December 31, 2018 for the Company and consolidated subsidiaries whose account settlement date was formerly February 28, 2018 and for the 12-month period from January 1, 2018 to December 31, 2018 for consolidated subsidiaries whose account settlement date was formerly December 31, 2017.

NET SALES AND OPERATING INCOME

(Millions of yen)



The fiscal period ending December 31, 2018

- Star Micronics and Domestic Consolidated Subsidiaries: 10 months (From March 1, 2018 to December 31, 2018)
- Overseas Consolidated Subsidiaries: 12 months (From January 1, 2018 to December 31, 2018)

<table>
<tr><th rowspan="2"></th><th colspan="12">12/2018</th></tr>
<tr><th>Jan.</th><th>Feb.</th><th>Mar.</th><th>Apr.</th><th>May</th><th>Jun.</th><th>Jul.</th><th>Aug.</th><th>Sep.</th><th>Oct.</th><th>Nov.</th><th>Dec.</th></tr>
<tr><td>Star Micronics and Domestic Consolidated Subsidiaries (10 months)</td><td colspan="2"></td><td colspan="3">First quarter</td><td colspan="3">Second quarter</td><td colspan="4">Third quarter</td></tr>
<tr><td>Overseas Consolidated Subsidiaries (12 months)</td><td colspan="5">First quarter</td><td colspan="3">Second quarter</td><td colspan="4">Third quarter</td></tr>
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06 Toward Enhancing Corporate Value

From a shareholders' return perspective, Star Micronics' basic policy is to target a total consolidated payout ratio of 50% or more, including the repurchase of own shares, while taking into consideration its consolidated dividend on equity (DOE). In the fiscal year under review, the Company repurchased 558,600 of its own shares at an acquisition cost of approximately ¥1,140 million, while retiring 258,600 shares in February 2018. In addition, Star Micronics set its period-end dividend at ¥27 per share. Accounting for the interim dividend of ¥25 per share, this brings the annual dividend to ¥52 per share, up ¥4 per share compared with the previous fiscal year. On this basis, the Company has continued to has increased its cash dividend for a seventh consecutive fiscal year, and as a result, secured a total payout ratio of 53.1% with DOE coming in at 4.3%.

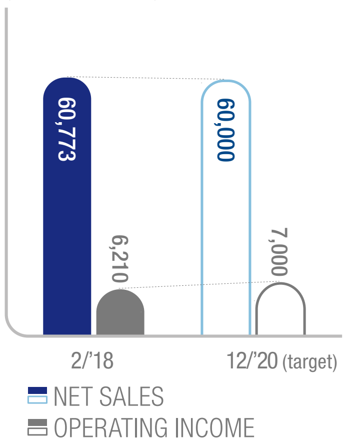
Despite the shortened 10-month period of the next fiscal year ending December 31, 2018, Star Micronics plans to pay an interim and period-end dividend of ¥27 per share for an annual dividend of ¥54 per share, up ¥2 per share compared with the fiscal year under review.

Moving forward, the Company will continue to target DOE of 4.5% or more and ROE of 12.0% or more, both of which are medium-term targets under its Medium-Term Management Plan. While maintaining its focus on actively reforming its business and management, Star Micronics will work in unison to enhance its corporate value.

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

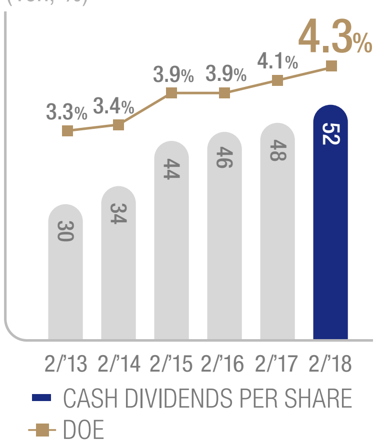
MEDIUM-TERM TARGETS

(Millions of yen)



CASH DIVIDENDS PER SHARE AND DOE

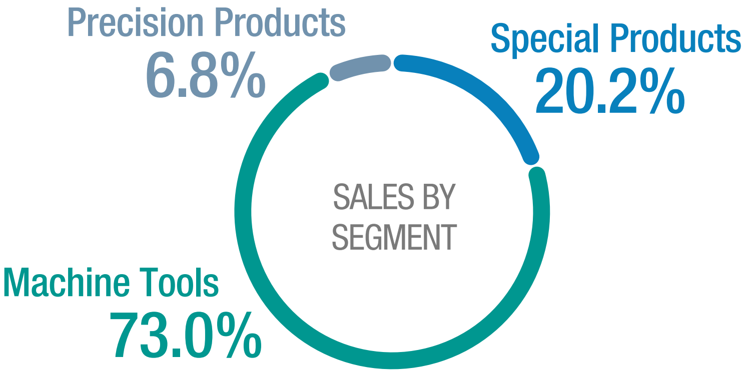
(Yen, %)



May 2018

Mamoru Sato
Representative Director,
President and CEO

At a Glance by Segment



Special Products

NET SALES ¥12,306 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 ¥44,342 million

In the Machine Tools Segment, Star Micronics' Swiss-Type CNC Automatic Lathes enjoy a high market share. Ideally suited for precision component processing with high accuracy, the Company's products in this segment are used in the processing of not only automotive parts, but also digital equipment and medical components. Star Micronics has put in place a structure and systems that consistently address users' needs by leveraging the latest technologies including its proprietary Star Motion Control System for optimizing machining operations.

▶ Machine Tools

Precision Products

NET SALES ¥4,125 million

The Precision Products Segment is a foundation business of Star Micronics. Building on its strengths and the ability to address a full range of needs from machining to plating, the Company boasts a leading share in the wristwatch component processing field in Japan. Currently, we are also promoting efforts aimed at cultivating the field of non-wristwatch components for automotive, air-conditioner, medical and other use.

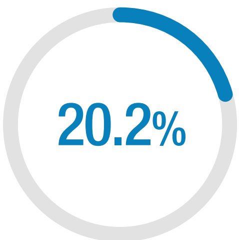
▶ Precision Products

Special Products

In the fiscal year under review, sales of POS printers declined in the Asian market. This decline was especially pronounced in China. On a positive note, trends in demand in the European and U.S. markets were firm. Sales also increased in the domestic mPOS market, which continues to expand. In the fiscal period ending December 31, 2018, trends in mPOS-related printers are expected to remain strong. These strong trends are projected to drive the Special Products Segment forward as a whole.

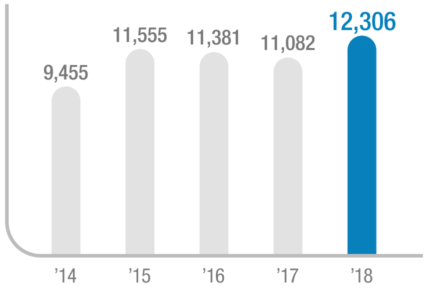
SPECIAL PRODUCTS

SALES BY SEGMENT



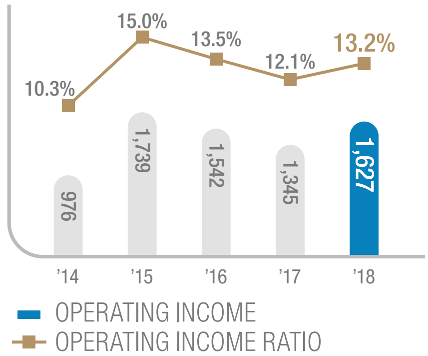
NET SALES

(Millions of yen)



OPERATING INCOME & OPERATING INCOME RATIO

(Millions of yen, %)

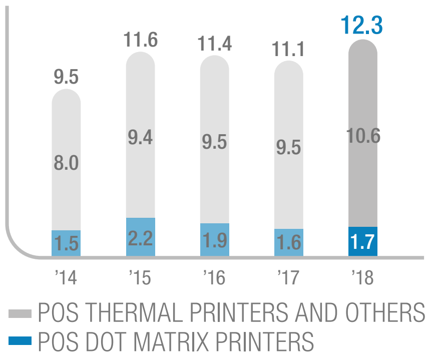


Business Environment and Results in Fiscal 2018

In the Special Products 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 smartphones and tablet terminals has enjoyed a steady increase in recent years.

SALES IN THE SPECIAL PRODUCTS SEGMENT

(Billions of yen)



In the fiscal year under review, overall sales of POS printers increased substantially in the U.S. market. Despite the impact of temporary inventory adjustments by sales agents in the first half of the fiscal year, this overall increase largely reflects sales growth in the second half. In Europe, sales expanded significantly owing ostensibly to a recovery in market conditions mainly in developed countries. In addition, the Star Micronics Group opened a German branch of its sales subsidiary in Europe and strengthened its sales network in order to cultivate markets mainly for mPOS printers and to stimulate demand. Sales declined in the Asian market due to the sluggish performance of dot impact printers in China. On a positive note, sales in Japan increased on the back of robust mPOS-related sales.

As a result, sales in the Special Products Segment climbed 11.0% compared with the previous fiscal year, to ¥12,306 million (US$115,009 thousand). Operating income increased 21.0% year on year, to ¥1,627 million (US$15,205 thousand).

Outlook for the Current Fiscal Period and Business Strategies

In the Special Products Segment's principal markets of the U.S., Europe, Asia, and Japan, economic conditions are projected to continue along a modest recovery path. Against this backdrop, the mPOS market is also expected to experience a period of ongoing expansion. Based on this outlook, the Star Micronics Group will work to further expand sales of mPOS printers. To this end, the Group has launched the new mCollection™ brand in its core mPOP® all-in-one printer and cash drawer product range.


POS printer TSP650 II

Star Micronics has changed its accounting business term, shortening the current fiscal period to a 10-month term. Looking at operating results for the current fiscal period, net sales are projected to come in at ¥12,320 million and operating income to total ¥1,950 million. Restating revenue and earnings on a 12-month basis, the period of the previous fiscal year, for reference purposes, net sales are forecast to total ¥12,780 million, an increase of 3.9% compared with the fiscal year under review. Operating income is estimated to come in at ¥1,850 million, a decrease of 0.1% year on year.

Sales Volume of POS Printers by Region

(Thousands of units)

	2017	2018	Change
The Americas	257	267	3.9%
Europe	147	170	15.6%
Asia	129	61	-52.7%
Japan	64	71	10.9%
Total	596	568	-4.7%

Expanding the Sales Network for the mPOS Market

In order to further expand the share held by its printers of the growing mPOS market, Star Micronics is working diligently to strengthen its marketing and brand.

In April 2017, Star Micronics established a branch of its Star Micronics Europe Ltd. (location: U.K.) sales subsidiary in Germany. The establishment of this branch was aimed at strengthening sales in Germany and the surrounding region by developing markets and tapping new demand with a focus on mPOS. This initiative is also designed to strengthen operations in continental Europe, given the impending withdrawal of the U.K. from the European Union.

Star Micronics also established a new brand called “mCollection™” based on the concepts of “Stylish Design,” “Compact Size,” and “Software Delivery with a Focus on Consistency.”* With the “mPOP®” all-in-one printer and cash drawer as its core product, this brand also includes various peripherals. In addition, Star Micronics will introduce two new printer models from this brand in June 2018. By continuing to expand its lineup of mPOS-related products, Star Micronics will continue to strengthen its ability to make proposals to customers and further expand its share of the market.

Star Micronics Europe Ltd. German Branch

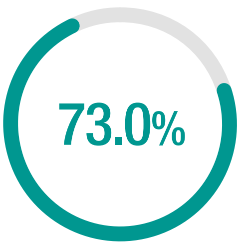
*Refers to the software used to control “mCollection™” devices from the host system (mPOS applications, etc.).

Machine Tools

Revenue and earnings increased substantially in the Machine Tools Segment in the fiscal year ended February 28, 2018. This was mainly due to robust demand, which significantly exceeded the levels reported in the previous fiscal year, mainly for automotive-related products in each region. Accounting for this and other factors, net sales in this segment reached a record high. While demand is anticipated to remain strong, there are concerns surrounding the impact of tight procurement parts and components supply in the current fiscal period.

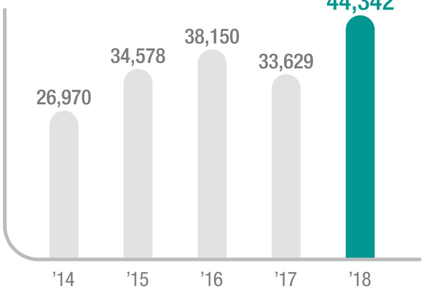
MACHINE TOOLS

SALES BY SEGMENT



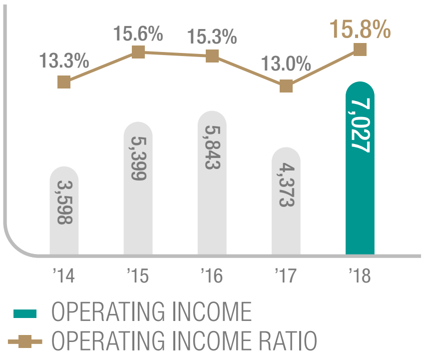
NET SALES

(Millions of yen)



OPERATING INCOME & OPERATING INCOME RATIO

(Millions of yen, %)

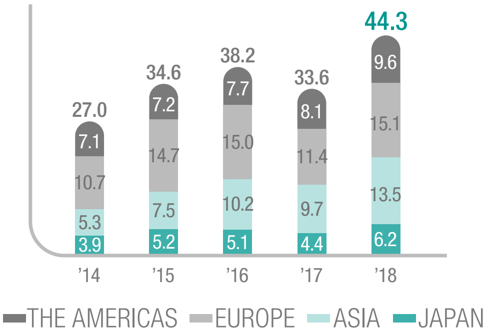


Business Environment and Results in Fiscal 2018

In CNC automatic lathes, a mainstay product in the Machine Tools Segment, sales grew in the U.S. market, mainly in the medical equipment-related sector, amid robust demand worldwide. Sales also rose strongly in the European market, largely reflecting sustained capital investment mainly in automotive-related sectors. In the Asian market, sales grew substantially on the back of strong trends in the automotive, communication, and medical equipment-related sectors, centered on China. In Japan, sales were healthy in the automotive sector, supporting a steep rise in overall sales of CNC automatic lathes.

MACHINE TOOLS SEGMENT SALES BY GEOGRAPHICAL REGION

(Billions of yen)



As a result, sales and profits increased substantially in the Machine Tools Segment. In specific terms, the Star Micronics Group reported an increase in net sales of 31.9% compared with the previous fiscal year, to ¥44,342 million (US$414,411 thousand). Operating income increased 60.7% year on year, to ¥7,027 million (US$65,673 thousand).

Outlook for the Current Fiscal Period and Business Strategies

CNC Swiss-Type Automatic Lathe SV-20R

Demand is anticipated to remain strong in the current fiscal period. This is especially true for China, where capital and other expenditures aimed at addressing the need for labor and energy savings is expected to fuel demand. Under these circumstances, Star Micronics has decided to bolster its product shipment capacity by constructing a new factory building at the Company's Dalian Plant in China. As far as the Group's fixed headstock automatic lathes are concerned, the Group is pushing forward with development activities. At the same time, every effort is being made to shorten development and manufacturing lead times by upgrading and expanding the lineup of products that employ the modular design production method. Moreover, the Group is committed to dispelling any concerns surrounding the impact of tight procurement parts and components supply by promoting global procurement and strengthening relationships with existing suppliers.

Star Micronics has changed its accounting business term, shortening the current fiscal period to a 10-month term. Looking at operating results for the current fiscal period, net sales are projected to come in at ¥40,000 million and operating income to total ¥6,680 million. Restating revenue and earnings on a 12-month basis, the period of the previous fiscal year, for reference purposes, net sales are forecast to total ¥42,060 million, a decrease of 5.1% compared with the fiscal year under review. Operating income is estimated to come in at ¥6,750 million, down 3.9% year on year.

Responding to Strong Demand in China

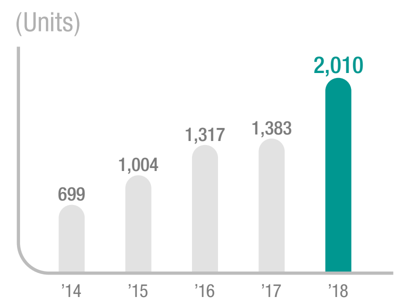
Although the Machine Tools Segment is currently seeing continued health in terms of global orders, the number of units sold in China has grown with particular strength. Given the outlook for continued capital and other expenditures aimed at addressing the demand for labor and energy savings, healthy sales are expected to continue in the coming periods as well.

Due to the increasingly urgent need for Star Micronics to strengthen its production system in order to respond to this strong demand, the Company made the decision to construct a new factory building at Star Micronics Manufacturing Dalian Co., Ltd., the Company's manufacturing subsidiary in Dalian, China. The new factory building will serve primarily as an option installation and testing area for products that are earmarked for the China market, as a storage area for components, and as an area for the assembly of NC operation panels. The new factory is planned to begin operations in January 2019.

Constructing the new factory building will allow the Company to consolidate plant operations, which to date have been spread over two locations, and thereby increase productivity. In addition, the new building will augment the Company's ability to deliver products bound for China while further increasing sales.


Conceptual image of the completed factory building

Trends in the number of machine tool units sold in Asia

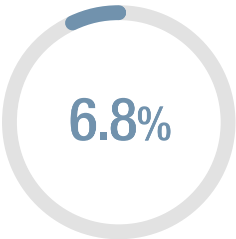


Precision Products

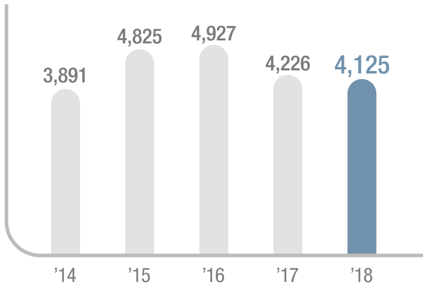
In the fiscal year under review, net sales in the Precision Products Segment declined compared with the previous fiscal year. Despite an increase in wristwatch component sales, this overall decline was largely attributable to sluggish demand for HDD and certain other non-wristwatch components. In the current fiscal period, demand for both wristwatch and non-wristwatch components is projected to stall.

PRECISION PRODUCTS

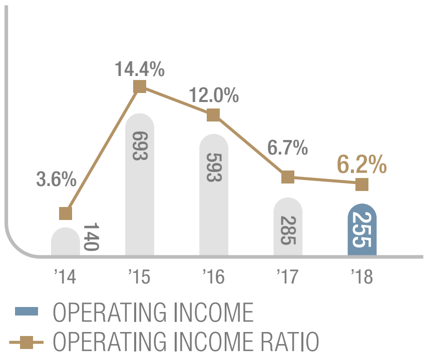
SALES BY SEGMENT



NET SALES
(Millions of yen)



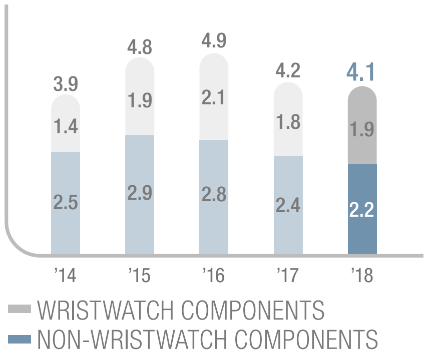
OPERATING INCOME & OPERATING INCOME RATIO
(Millions of yen, %)



Business Environment and Results in Fiscal 2018

The products in the Precision Products 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.

PRECISION PRODUCTS SEGMENT SALES
(Billions of yen)



Sales of wristwatch components increased, climbing 4.9% compared with the previous fiscal year, to ¥1,928 million (US$18,019 thousand). Despite the impact from production adjustments at wristwatch makers in the first half of the fiscal year, this increase was mainly due to firm sales trends over the second half. Sales of non-wristwatch components declined, falling 8.0% compared with the previous fiscal year, to ¥2,197 million (US$20,533 thousand). Despite robust sales trends in medical-related components and other products, this result was largely attributable to the downturn in HDD and automotive components.

As a result, net sales in the Precision Products Segment decreased 2.4% compared with the previous fiscal year, to ¥4,125 million (US$38,552 thousand). Operating income decreased 10.5% year on year, to ¥255 million (US$2,383 thousand).

Outlook for the Current Fiscal Period and Business Strategies

In the current fiscal period, sales of both wristwatch and non-wristwatch components are projected to come in at around the same levels as the fiscal year under review. Moving forward, the Star Micronics Group will pursue growth by focusing on the automotive- and medical-related component markets, where trends are expected to remain strong. Turning to HDD components, the Star Micronics Group will reorganize its overseas production bases in a bid to address the decline in demand. In addition, energies will be channeled toward improving manufacturing efficiency by introducing new automated and unmanned equipment while at the same time securing profits by enhancing the Group's ability to rationalize costs.

Automotive Components

Star Micronics has changed its accounting business term, shortening the current fiscal period to a 10-month term. Looking at operating results for the current fiscal period, net sales are projected to come in at ¥3,680 million and operating income to total ¥290 million. Restating revenue and earnings on a 12-month basis, the period of the previous fiscal year, for reference purposes, net sales are forecast to total ¥4,060 million, a decrease of 1.6% compared with the fiscal year under review. Operating income is estimated to come in at ¥370 million, an increase of 45.1% year on year.

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.

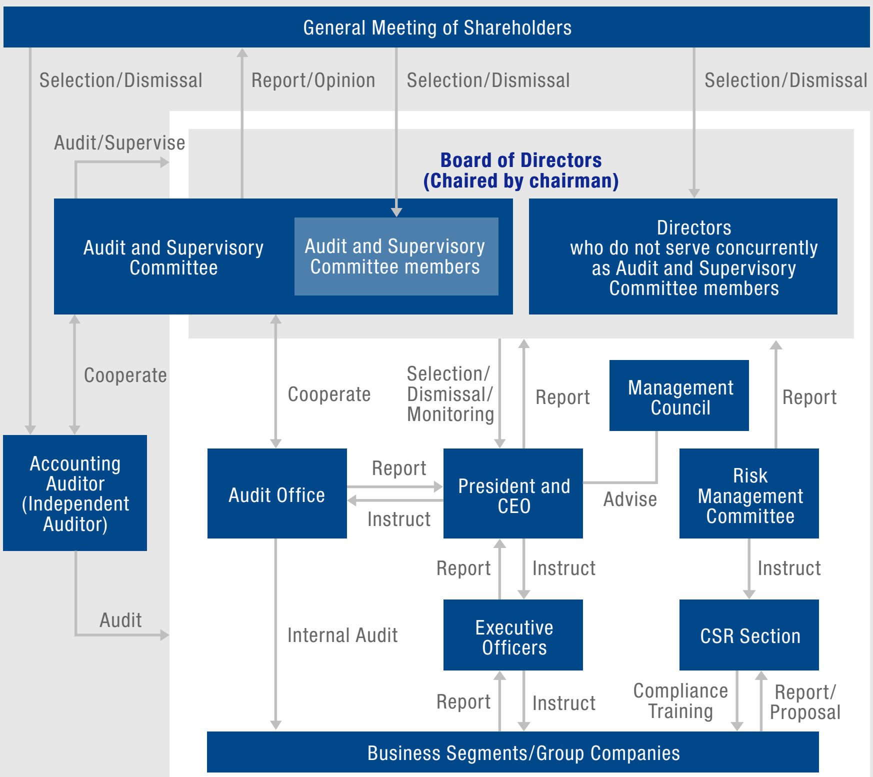
The Company has decided to set the number of internal directors including the president at three and to appoint four outside directors including directors who serve as Audit and Supervisory Committee members. In this manner, outside directors make up a majority of the Board of Directors. Based on each 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 Committee Members

Members of the Board of Directors at Star Micronics are compensated in accordance with the Company's earnings performance. Their package consists of 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 24, 2018.

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 Committee Members

Director rank	Total compensation, etc. (¥ million)	Total compensation by category (¥ million)			Headcount of those eligible
		Basic compensation	Stock options	Bonus	
Directors (excluding Audit & Supervisory Committee members) (excluding outside directors)	209	98	31	80	3
Audit & Supervisory Committee members (excluding outside directors)	—	—	—	—	—
Outside directors and Audit & Supervisory Committee members	20	20	—	—	4

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.

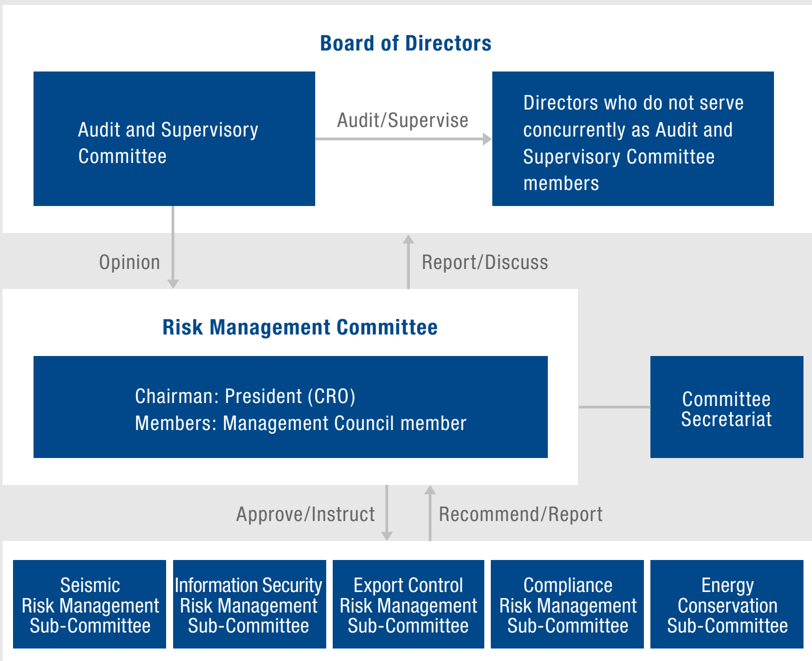
Internal Control System

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

	2018	2017	2016
For the year:			
Net sales	**¥60,773**	¥48,937	¥54,458
Cost of sales	**38,511**	30,825	33,558
Selling, general and administrative expenses	**16,052**	14,505	15,165
Operating income (loss)	**6,210**	3,607	5,735
Other income (expenses) – net	**149**	224	(383)
Income (loss) before income taxes	**6,359**	3,831	5,352
Income taxes	**487**	572	1,530
Net income attributable to noncontrolling interests	**91**	78	101
Net income (loss) attributable to owners of the parent	**5,781**	3,181	3,721
Net cash provided by operating activities	**8,923**	5,338	3,107
Net cash (used in) provided by investing activities	**(5,013)**	813	(1,074)
Free cash flows	**3,910**	6,151	2,033
Net cash (used in) provided by financing activities	**(2,926)**	139	(2,180)
Per share:			
Basic net income (loss)	**¥155.68**	¥ 81.77	¥ 87.98
Diluted net income	**136.90**	74.69	87.69
Cash dividends applicable to the year	**52.00**	48.00	46.00
At year-end:			
Current assets	**¥59,635**	¥53,172	¥50,367
Net property, plant and equipment	**14,076**	12,926	14,360
Total assets	**77,363**	68,351	67,828
Long-term liabilities	**9,697**	9,935	2,021
Total equity	**47,447**	43,755	50,200
Stock exchange price per share of common stock:			
Highest	**¥2,480**	¥1,770	¥2,238
Lowest	**1,588**	1,023	1,125
Selected financial indicators:			
Equity ratio (%)	**60.1**	62.8	72.7
Return on equity (%)	**12.9**	6.9	7.4
Dividend payout ratio (%)	**33.4**	58.7	52.3
Dividend on equity (%)	**4.3**	4.1	3.9

Millions of yen (Except for per share data)							
2015	2014	2013	2012	2011	2010	2009	2008
¥50,958	¥43,482	¥37,858	¥41,654	¥35,718	¥ 29,181	¥56,953	¥73,884
31,355	28,047	24,683	25,753	23,265	22,326	33,535	42,207
14,126	12,829	11,595	11,948	11,024	10,840	14,873	17,025
5,477	2,606	1,580	3,953	1,429	(3,985)	8,545	14,652
605	40	2,140	(724)	(1,069)	(2,665)	(984)	(271)
6,082	2,646	3,720	3,229	360	(6,650)	7,561	14,381
1,285	1,400	1,330	717	107	1,800	3,147	6,190
101	103	90	85	92	105	76	111
4,696	1,143	2,300	2,427	161	(8,555)	4,338	8,080
4,326	2,597	483	4,466	3,520	4,769	6,152	10,666
(2,501)	(2,455)	(1,908)	(393)	(1,518)	(1,194)	(1,314)	(8,072)
1,825	142	(1,425)	4,073	2,002	3,575	4,838	2,594
(1,568)	(1,394)	(1,202)	(2,092)	(1,813)	(3,977)	(9,077)	(2,152)
¥111.36	¥ 27.17	¥ 54.66	¥ 56.94	¥ 3.71	¥(187.95)	¥ 85.66	¥150.74
111.05	27.14					85.63	150.47
44.00	34.00	30.00	26.00	22.00	22.00	45.00	56.00
¥50,533	¥41,233	¥35,827	¥38,302	¥34,836	¥ 34,346	¥44,762	¥63,152
15,309	14,327	13,476	10,289	10,549	11,678	15,169	17,728
70,261	59,303	52,564	51,925	49,250	50,681	64,205	86,375
617	524	303	407	423	592	459	696
51,903	45,698	40,710	36,980	37,096	41,261	52,986	66,602
Yen							
¥1,885	¥1,422	¥988	¥958	¥1,182	¥1,020	¥2,175	¥3,740
1,115	857	647	657	702	595	773	1,506
72.4	75.5	76.1	70.2	73.9	80.1	81.5	76.2
9.8	2.7	6.0	6.7	0.4		7.3	12.8
39.5	125.1	54.9	45.7	593.0		52.5	37.2
3.9	3.4	3.3	3.0	2.5	2.2	3.8	4.7

Management's Discussion and Analysis

OVERVIEW (Years ended February 28, 2018 and 2017)

Business Environment

Looking at economic conditions during fiscal 2018, the fiscal year ended February 28, 2018, the U.S. economy continued to recover steadily and the European economy recovered at a modest pace. In Asia, there were indications of a favorable turnaround in China. On the domestic front, the Japanese economy continued along its modest recovery path.

Net Sales

(Millions of yen)

	2017	2018	Change (%)
	¥48,937	**¥60,773**	24.2

In the major markets in which the Star Micronics Group operates, levels of demand in the machine tools market in Japan and overseas were both significantly higher compared with the previous fiscal year. Demand in the POS-related market in the Special Products Segment was also robust mainly in the European and U.S. markets. However, demand in the precision products-related market was sluggish for certain products including components for hard disk drives (HDDs).

Operating Income

(Millions of yen)

	2017	2018	Change (%)
	¥3,607	**¥6,210**	72.2

Thanks largely to record high machine tools sales, operating income increased substantially.

Net Income Attributable to Owners of the Parent

(Millions of yen)

	2017	2018	Change (%)
	¥3,181	**¥5,781**	81.7

While recording an impairment loss for a manufacturing subsidiary in Thailand in the Precision Products Segment, the Star Micronics Group also posted such items as deferred tax assets. As a result, net income attributable to owners of parent grew substantially.

Cash Dividends per Share

(Yen)

	2017	2018	Change (Yen)
	¥48	**¥52**	¥4

The annual cash dividend in the fiscal year under review increased ¥4 per share compared with the previous fiscal year, to ¥52 per share.

Total Assets

(Millions of yen)

	2017	2018	Change (%)
	¥68,351	**¥77,363**	13.2

Total assets as of the end of the fiscal year under review increased compared with the end of the previous fiscal year. In addition to higher trade notes and accounts receivable as well as cash and deposits, this increase in total assets was attributable to the upswing in construction in progress due to the construction of the Company's new head office building.

Free Cash Flows

(Millions of yen)

	2017	2018	Change (%)
	¥6,151	**¥3,910**	(36.4)

Free cash flows decreased during the fiscal year under review. Despite the increase in cash provided by operating activities, this downturn in free cash flows was largely attributable to cash used in such investing activities as purchases of property, plant and equipment and purchases of investment securities.

Free cash flows = Operating cash flows + Investing cash flows

Capital Expenditures

(Millions of yen)

	2017	2018	Change (%)
	¥1,441	**¥3,505**	143.2

Capital expenditures increased substantially compared with the previous fiscal year. This was mainly due to expenses relating to the construction of the Company's new head office building.

Net Sales by Region

(Millions of yen)

	2017	2018	Change (%)
Japan	¥8,221	**¥10,205**	24.1
USA	13,084	**14,636**	11.9
China	6,317	**8,841**	40.0
Germany	5,836	**7,323**	25.5
Others	15,479	**19,768**	27.7

INCOME ANALYSIS

Substantial increase in revenue and earnings on the back of record high machine tools sales

In fiscal 2018, the fiscal year under review, the Company reported consolidated net sales of ¥60,773 million (US$567,972 thousand), an increase of 24.2%, or ¥11,836 million, year on year. Looking at movements in foreign currency exchange rates, the value of the yen weakened against both the U.S. dollar and the euro compared with the previous fiscal year. Against this backdrop, demand in the Japanese and overseas machine tools markets significantly exceeded the levels recorded during the previous fiscal year. As a result, machine tools sales reached a record high. In the POS-related markets of the Special Products Segment, trends in demand were firm mainly in Europe and the U.S. In contrast, demand for certain products including components for hard disk drives (HDDs) in precision products-related markets was sluggish.

The cost of sales increased 24.9%, or ¥7,686 million, year on year, to ¥38,511 million (US$359,916 thousand). As a result, gross profit climbed 22.9%, or ¥4,150 million, to ¥22,262 million (US$208,056 thousand). On this basis, the gross profit margin came in at 36.6%, down 0.4 of a percentage point compared with the previous fiscal year.

Selling, general and administrative (SG&A) expenses grew 10.7%, or ¥1,547 million, year on year, to ¥16,052 million (US$150,019 thousand). This growth largely reflected the upswing in direct selling expenses and labor costs in line with the increase in net sales.

Accounting for each of the aforementioned factors, operating income improved 72.2%, or ¥2,603 million, year on year, to ¥6,210 million (US$58,037 thousand). The operating income ratio also improved 2.8 percentage points compared with the previous fiscal year, to 10.2%.

Despite incurring an impairment loss, net income increased substantially owing mainly to the posting of deferred tax assets.

In fiscal 2018, other income-net came to ¥149 million (US$1,393 thousand), down from ¥224 million in the previous fiscal year. While Star Micronics recorded a year-on-year turnaround of ¥858 million to a foreign exchange gain-net of ¥530 million (US$4,953 thousand), this downturn in other income-net was largely due to the loss on impairment of long-lived assets of ¥642 million (US$6,000 thousand) in connection with the Group's factory in Thailand in the Precision Products Segment.

Based on the aforementioned, income before income taxes increased 66.0%, or ¥2,528 million, year on year, to ¥6,359 million (US$59,430 thousand). Total income taxes were ¥487 million (US$4,552 thousand). This amount takes into account the posting of deferred tax assets totaling ¥1,169 million (US$10,925 thousand). Net income attributable to owners of the parent after deducting net income attributable to noncontrolling interests totaled ¥5,781 million (US$54,028 thousand), an increase of 81.7%, or ¥2,600 million, compared with the previous fiscal year.

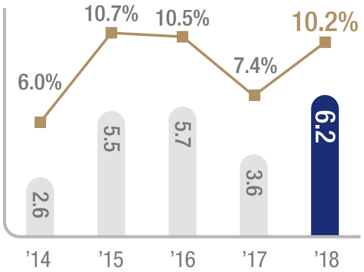
Basic net income per share came to ¥155.68 (US$1.45) and diluted net income per share was ¥136.90 (US$1.28).

The annual cash dividend increased ¥4 per share year on year, to ¥52 per share for a total payout ratio of 53.1%.

Star Micronics increased its annual cash dividend ¥4 per share for the fiscal year under review, to ¥52 (US$0.49) per share. The dividend on equity (DOE) came to 4.3%, an improvement of 0.2 of a percentage point compared with the previous fiscal year. The Company also undertook the

OPERATING INCOME AND OPERATING INCOME RATIO

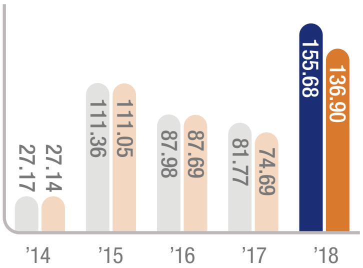
(Billions of yen, %)



OPERATING INCOME
OPERATING INCOME RATIO

NET INCOME PER SHARE

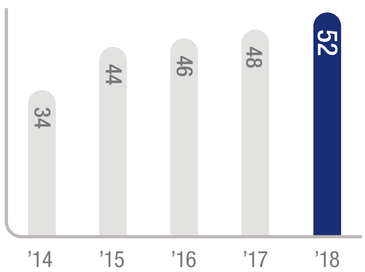
(Yen)



BASIC NET INCOME
DILUTED NET INCOME

CASH DIVIDENDS PER SHARE

(Yen)



repurchase of its own shares totaling ¥1,148 million (US$10,729 thousand) during the fiscal year ended February 28, 2018. Taking each of these factors into consideration, the total consolidated payout ratio was 53.1%. For the next fiscal period, Star Micronics plans to again increase its annual cash dividend ¥2 per share, to ¥54 per share.

As far as its policy toward the payment of future dividends is concerned, the Company is aiming for a total consolidated payout ratio of at least 50% that includes the repurchase of its own shares while taking into consideration DOE. Turning to Star Micronics' internal reserves, the Company will allocate funds to a wide range of areas including investment in growth businesses with the aim of ensuring sustainable growth. At the same time, Star Micronics will work to enhance its corporate value and improve shareholder returns.

FINANCIAL POSITION & LIQUIDITY

Increase in total assets on the back of dynamic business activities

Total current assets as of February 28, 2018 stood at ¥59,635 million (US$557,337 thousand), an increase of 12.2%, or ¥6,463 million, compared with the end of the previous fiscal year. This increase in current assets largely reflected higher balances of cash and cash equivalents, which climbed 7.2%, or ¥1,479 million, to ¥21,957 million (US$205,206 thousand), trade notes and accounts receivable, which grew 21.4%, or ¥2,906 million, to ¥16,498 million (US$154,187 thousand), and inventories, which expanded 4.4%, or ¥717 million, to ¥17,129 million (US$160,084 thousand).

Net property, plant and equipment increased 8.9%, or ¥1,150 million, compared with the end of the previous fiscal year, to ¥14,076 million (US$131,551 thousand). The increase mainly reflected posting a construction in progress amount of ¥2,676 million (US$25,009 thousand) in connection with the Company's new head office building. The balance of investments and other assets climbed 62.1%, or ¥1,399 million, year on year, to ¥3,652 million (US$34,131 thousand). This was largely due to the surge in investment securities of 173.4%, or ¥744 million, to ¥1,173 million (US$10,962 thousand) and the jump in deferred tax assets of 557.2%, or ¥769 million, to ¥907 million (US$8,477 thousand).

Accounting for each of the aforementioned factors, total assets grew 13.2%, or ¥9,012 million, compared with the previous fiscal year-end, to ¥77,363 million (US$723,019 thousand).

Increase in liabilities owing to the increase in payables

Current liabilities increased 37.9%, or ¥5,558 million, compared with the end of the previous fiscal year, to ¥20,219 million (US$188,963 thousand). This increase was mainly attributable to the increase in payables of 44.2%, or ¥3,683 million, year on year, to ¥12,007 million (US$112,215 thousand).

Total long-term liabilities stood at ¥9,697 million (US$90,626 thousand), down 2.4%, or ¥238 million, compared with the previous fiscal year-end. This largely reflected the drop in liability for retirement benefits of 11.2%, or ¥180 million, year on year, to ¥1,433 million (US$13,393 thousand).

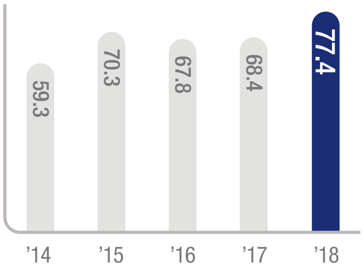
Increase in equity through the accumulation of retained earnings

Total equity increased 8.4%, or ¥3,692 million, compared with the end of the previous fiscal year, to ¥47,447 million (US$443,430 thousand). The principal factor behind this increase was the upswing in retained earnings of 12.9%, or ¥3,750 million, year on year, to ¥32,846 million (US$306,972 thousand). In addition, the negative balance of treasury stock-at cost climbed ¥736 million compared with the previous fiscal year-end, to ¥11,519 million (US$107,654 thousand).

Owing to the increase in total assets, the equity ratio came in at 60.1% as of February 28, 2018, down 2.7 percentage points compared with the end of the previous fiscal year. Equity per share as of the end of the fiscal year under review increased ¥111.75 year on year, to ¥1,263.15 (US$11.81).

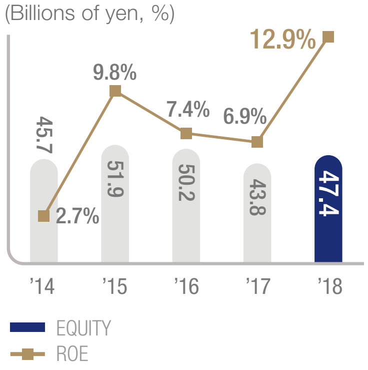
TOTAL ASSETS

(Billions of yen)



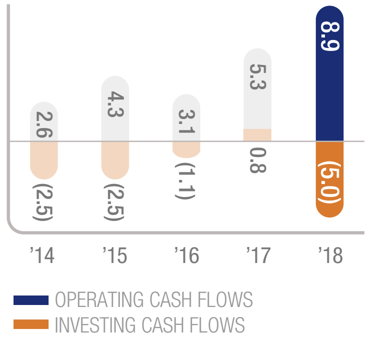
EQUITY AND RETURN ON EQUITY

(Billions of yen, %)



CASH FLOWS

(Billions of yen)



CASH FLOWS

Undertook capital expenditures and repurchase of the Company's own shares drawing on Star Micronics' abundant cash flows from operating activities

Net cash provided by operating activities came to ¥8,923 million (US$83,393 thousand), up ¥3,585 million compared with the previous fiscal year. This increase was mainly due to the substantial upswing in income before income taxes to ¥6,359 million (US$59,430 thousand). Major cash outflows included increases in trade receivables and inventories. This was more than offset by such cash inflows as the increase in trade payables.

Net cash used in investing activities totaled ¥5,013 million (US$46,850 thousand), a negative turnaround of ¥5,826 million compared with the previous fiscal year. This negative turnaround largely reflects purchases of property, plant and equipment of ¥3,477 million (US$32,495 thousand) and purchases of marketable and investment securities of ¥2,234 million (US$20,878 thousand).

Net cash used in financing activities amounted to ¥2,926 million (US$27,346 thousand), again a negative turnaround of ¥3,065 million. The principal cash outflows for the fiscal year under review included dividends paid to shareholders of ¥1,821 million (US$17,019 thousand) and payments for purchase of treasury stock of ¥1,148 million (US$10,729 thousand).

Taking into account each of the aforementioned activities as well as foreign currency translation adjustments on cash and cash equivalents of ¥495 million (US$4,626 thousand) and the net increase in cash and cash equivalents of ¥1,479 million (US$13,823 thousand), cash and cash equivalents stood at ¥21,957 million (US$205,206 thousand) as of February 28, 2018.

CAPITAL EXPENDITURES AND R&D EXPENSES

Payments to cover expenses relating to reconstruction of the Company's head office in the fiscal year under review and next fiscal period

In the fiscal year under review, capital expenditures increased 143.2%, or ¥2,064 million, compared with the previous fiscal year, to ¥3,505 million (US$32,757 thousand). In the fiscal period ending December 31, 2018, the Company plans to undertake capital expenditures totaling ¥5,273 million. Of this total, ¥2,060 million will be allocated as expenses for the construction of the Company's new head office building.

Special Products–Expenditures in the Special Products Segment declined ¥13 million compared with the previous fiscal year, to ¥124 million (US$1,159 thousand). In the fiscal period ending December 31, 2018, the Company is budgeting expenditures of ¥306 million in this segment mostly for dyes used in the manufacture of new products.

Machine Tools–Expenditures in the Machine Tools Segment decreased ¥211 million compared with the previous fiscal year, to ¥555 million (US$5,187 thousand). In the fiscal period ending December 31, 2018, the Company is looking to undertake expenditures to the amount of ¥2,088 million. Expenses will cover such activities as the renewal and maintenance of facilities as well as expenditures relating to the new building at the Group's Dalian Plant in China.

Precision Products–Expenditures in the Precision Products Segment came to ¥287 million (US$2,682 thousand), down ¥102 million compared with the previous fiscal year. In the fiscal period ending December 31, 2018, the Company expects to spend ¥756 million, mostly for equipment and facilities in order to boost production capacity and to streamline operations while saving labor.

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

R&D Activities–The Star Micronics Group's research and development structure consists of the individual business segment development departments, which are in charge of developing products and technologies directly related to their current operations, and the R&D Division, which comprehensively provides technological support for the entire company.

The main outcomes of R&D in the fiscal year under review are outlined below. R&D spending totaled ¥1,994 million (US$18,636 thousand).

R&D Center–Although the R&D Center aimed to develop business models that apply energy harvesting to the commercialization of new business fields, Star Micronics determined that early commercialization would be difficult and thus terminated these activities and discontinued the organization as of the fiscal year under review.

Total R&D spending related to the R&D Center was ¥356 million (US$3,327 thousand).

Special Products Segment–During the fiscal year under review, in addition to developing the TSP100IIIU, a new 3-inch thermal printer equipped with a USB communications port for the mobile POS printer market, and developing the SM-L300, a 3-inch mobile printer with superior portability, the Special Products Segment updated its various software versions.

As the latest model in the TSP100III series, the TSP100IIIU is capable of high-speed printing of up to 250mm/sec and is equipped with a de-curling function that prevents printed receipts from curling up. The most prominent feature of this model is the printer's USB Type A port, which allows iPhones, iPads, and other iOS devices to be simultaneously charged at a maximum output of 2.4A while transmitting printing data by connecting these with a Lightning connector. Moreover, mobile Windows and Android devices can be connected to the USB Type B port to enable printing via reliable USB communications.

The SM-L300 retains the same power savings, low-voltage, BLE* communications (for iOS devices) capability, and 5V USB recharging port available on the existing SM-L200 2-inch mobile printer model, but is also equipped with a de-curling function, a first for mobile printers. Equipped with a mechanism that adjusts the paper width over 2 mm intervals, the printer is also capable of using different types of thermal paper, as well as printing both traditional labels and liner free re-stick labels.

In terms of software development, the TSP650II Series is now compatible with AirPrint. Provided by Apple, AirPrint is a feature that allows applications to print on any AirPrint-enabled printer over a network without requiring the user to install the printer driver on the host device. Although AirPrint is built into most consumer-use printer models, and so on, this is the first AirPrint-enabled POS printer in the industry.

In addition, the Special Products Segment developed an iOS- and Android-compatible mobile device application for shops located along shopping streets as part of a local revitalization demonstration. This application has functions that enable electronic receipts to be received, coupons to be issued, customer satisfaction surveys to be provided, and such, as a means of improving the convenience of shopping for both consumers and shops. This application can also be used as a communications tool between consumers and shops.

Total R&D spending related to the Special Products Segment was ¥753 million (US$7,038 thousand).

* BLE (Bluetooth Low Energy): One of the extension specifications for Bluetooth short-distance radio communications technologies. Low-power communication mode

Machine Tools Segment–In the fiscal year under review, in addition to developing the SR-20JII typeA and SR-20JII typeB, two updated variations of the SR-20J model, which has been praised by the market since its release for its mechanical rigidity and ease of operations, the Machine Tools Segment also developed software that is compatible with IoT technology. As a means of entering new fields, the Machine Tools Segment also advanced the development of a fixed headstock automatic lathe.

A modular design and production method were adopted for the SR-20JII typeA and SR-20JII typeB with the aim of shortening product development and production lead times. These models have greater motor output and mechanical rigidity than the approximately 4,000 SR-20J units sold thus far, and have improved functionality, including the ability to switch between guide bush specifications and non-guide bush specifications. Type B has an additional Y-axis on the rear-side tool post, enabling operators to attach a maximum of eight tools and to select a machine configuration that suits their needs.

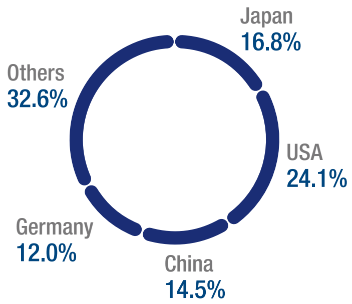
In terms of software development, the Machine Tools Segment exhibited their machine operations monitoring software developed as an IoT initiative at MECT2017, a machine-tool-related exhibition. This software connects multiple machine tools made by Star Micronics via a LAN at plants, enabling machine operators to monitor the operational status and history of the machines using PCs, tablets and smartphones. The software also enables alarm notification, and so on, via email. Currently, this software is being test run and evaluated for functionality by several users. The information obtained from these users will serve as the basis for improvements as the Machine Tools Segment advances preparations for the launch of sales.

Total R&D spending related to the Machine Tools Segment was ¥885 million (US$8,271 thousand).

SALES FRAMEWORK AND NET SALES BY REGION

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

NET SALES BY REGION



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

Note: U.S.-based Star Cloud Services Inc. has been excluded from the aforementioned due to its liquidation during the fiscal year under review.

Substantial increase in net sales across all regions

In the fiscal year under review, overseas sales as a proportion of total sales came to 83.2%, the same level as the previous fiscal year.

By region, net sales in the U.S. climbed 11.9%, or ¥1,552 million year on year, to ¥14,636 million (US$136,785 thousand).

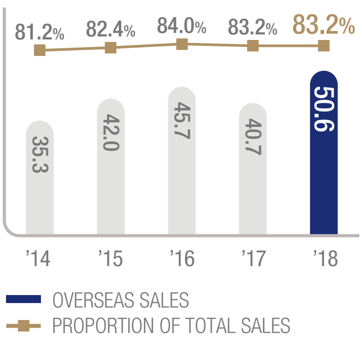
Net sales in China climbed 40.0%, or ¥2,524 million, to ¥8,841 million (US$82,626 thousand).

In Germany, net sales grew 25.5%, or ¥1,487 million, to ¥7,323 million (US$68,439 thousand).

In Japan, net sales increased 24.1%, or ¥1,984 million, to ¥10,205 million (US$95,374 thousand).

OVERSEAS SALES AND PROPORTION OF TOTAL SALES

(Billions of yen, %)



Consolidated Balance Sheet

Star Micronics Co., Ltd. and Consolidated Subsidiaries
February 28, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2018**	2017	**2018**
Current assets:			
Cash and cash equivalents (Note 15)	**¥ 21,957**	¥ 20,478	**$ 205,206**
Marketable securities (Notes 3 and 15)	**1,000**		**9,346**
Short-term investments (Notes 4 and 15)	**599**	819	**5,598**
Receivables (Notes 5 and 15):			
Trade notes and accounts receivable	**16,498**	13,592	**154,187**
Unconsolidated subsidiaries and associated companies	**458**	617	**4,280**
Other	**967**	726	**9,037**
Allowance for doubtful receivables	**(145)**	(74)	**(1,355)**
Inventories (Note 6)	**17,129**	16,412	**160,084**
Deferred tax assets (Note 12)	**664**	158	**6,206**
Prepaid expenses and other	**508**	444	**4,748**
Total current assets	**59,635**	53,172	**557,337**
Property, plant and equipment (Note 7)**:**			
Land	**2,747**	2,984	**25,673**
Buildings and structures	**15,998**	15,955	**149,514**
Machinery and equipment	**23,468**	23,649	**219,327**
Lease assets (Note 14)	**153**	114	**1,430**
Construction in progress	**2,676**	79	**25,009**
Total	**45,042**	42,781	**420,953**
Accumulated depreciation	**(30,966)**	(29,855)	**(289,402)**
Net property, plant and equipment	**14,076**	12,926	**131,551**
Investments and other assets:			
Investment securities (Notes 3 and 15)	**1,173**	429	**10,962**
Investments in unconsolidated subsidiaries and associated companies	**393**	407	**3,673**
Deferred tax assets (Note 12)	**907**	138	**8,477**
Other assets	**1,179**	1,279	**11,019**
Total investments and other assets	**3,652**	2,253	**34,131**
Total	**¥ 77,363**	¥ 68,351	**$ 723,019**

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Current liabilities:			
Payables (Note 15):			
Trade notes and accounts payable	¥ 10,311	¥ 6,824	$ 96,365
Unconsolidated subsidiaries and associated companies	1	1	9
Other	1,695	1,499	15,841
Short-term bank loans (Notes 8 and 15)	2,500	2,500	23,365
Current portion of long-term debt (Note 8)	28	22	262
Income taxes payable (Note 12)	842	504	7,869
Accrued expenses	1,150	822	10,748
Deferred tax liabilities (Note 12)	117	102	1,093
Other	3,575	2,387	33,411
Total current liabilities	20,219	14,661	188,963
Long-term liabilities:			
Convertible bonds (Notes 8 and 15)	8,052	8,068	75,252
Long-term debt (Note 8)	53	39	495
Liability for retirement benefits (Note 9)	1,433	1,613	13,393
Deferred tax liabilities (Note 12)	3	66	28
Other	156	149	1,458
Total long-term liabilities	9,697	9,935	90,626
Commitments and contingent liabilities (Note 14)			
Equity (Notes 10, 11 and 21):			
Common stock – authorized, 158,000,000 shares; issued, 46,774,634 shares in 2018 and 47,033,234 shares in 2017	12,722	12,722	118,897
Capital surplus	13,877	13,939	129,692
Stock acquisition rights (Note 11)	250	210	2,336
Retained earnings	32,846	29,096	306,972
Treasury stock – at cost, 9,944,576 shares in 2018 and 9,741,728 shares in 2017	(11,519)	(10,783)	(107,654)
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	165	140	1,542
Foreign currency translation adjustments	(1,186)	(1,354)	(11,084)
Defined retirement benefit plans	(382)	(822)	(3,570)
Total	46,773	43,148	437,131
Noncontrolling interests	674	607	6,299
Total equity	47,447	43,755	443,430
Total	¥ 77,363	¥ 68,351	$ 723,019

See notes to consolidated financial statements.

Consolidated Statement of Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales	¥60,773	¥48,937	$567,972
Cost of sales (Note 9)	38,511	30,825	359,916
Gross profit	22,262	18,112	208,056
Selling, general and administrative expenses (Notes 9 and 13)	16,052	14,505	150,019
Operating income	6,210	3,607	58,037
Other income (expenses):			
Interest and dividend income	167	177	1,561
Interest expense	(4)	(6)	(37)
Foreign exchange gain (loss) – net	530	(328)	4,953
Gain on sale of property, plant and equipment	33	4	309
Gain on sale of investment securities		258	
Loss on disposal of property, plant and equipment	(48)	(15)	(449)
Loss on impairment of long-lived assets (Note 7)	(642)		(6,000)
Other – net	113	134	1,056
Other income (expenses) – net	149	224	1,393
Income before income taxes	6,359	3,831	59,430
Income taxes (Note 12)**:**			
Current	1,656	1,007	15,477
Deferred	(1,169)	(435)	(10,925)
Total income taxes	487	572	4,552
Net income	5,872	3,259	54,878
Net income attributable to noncontrolling interests	91	78	850
Net income attributable to owners of the parent	¥ 5,781	¥ 3,181	$ 54,028

	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 2.s, 10 and 18)**:**			
Basic net income	¥155.68	¥81.77	$1.45
Diluted net income	136.90	74.69	1.28
Cash dividends applicable to the year	52.00	48.00	0.49

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net income	¥5,872	¥ 3,259	$54,878
Other comprehensive income (Note 17)**:**			
Unrealized gain (loss) on available-for-sale securities	25	(42)	234
Foreign currency translation adjustments	200	(1,394)	1,869
Defined retirement benefit plans	440	52	4,112
Share of other comprehensive loss in associates	(10)	(10)	(93)
Total other comprehensive income	655	(1,394)	6,122
Comprehensive income	¥6,527	¥ 1,865	$61,000
Total comprehensive income attributable to (Note 17)**:**			
Owners of the parent	¥6,414	¥ 1,836	$59,944
Noncontrolling interests	113	29	1,056

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2018

	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	Non-controlling interests	Total equity
Balance, February 29, 2016	42,320	¥12,722	¥13,923	¥152	¥27,805	¥ (4,479)	¥182	¥ 1	¥(874)	¥49,432	¥ 768	¥50,200
Net income attributable to owners of the parent					3,181					3,181		3,181
Cash dividends, ¥48.0 per share					(1,890)					(1,890)		(1,890)
Purchase of treasury stock	(5,090)					(6,373)				(6,373)		(6,373)
Disposal of treasury stock	62		16			69				85		85
Net change in the year				58			(42)	(1,355)	52	(1,287)	(161)	(1,448)
Balance, February 28, 2017	37,292	¥12,722	¥13,939	¥210	¥29,096	¥(10,783)	¥140	¥(1,354)	¥(822)	¥43,148	¥ 607	¥43,755
Net income attributable to owners of the parent					**5,781**					**5,781**		**5,781**
Cash dividends, ¥52.0 per share					**(1,823)**					**(1,823)**		**(1,823)**
Purchase of treasury stock	**(559)**					**(1,145)**				**(1,145)**		**(1,145)**
Disposal of treasury stock	**97**		**29**			**110**				**139**		**139**
Retirement of treasury stock			**(91)**		**(208)**	**299**						
Net change in the year				**40**			**25**	**168**	**440**	**673**	**67**	**740**
Balance, February 28, 2018	**36,830**	**¥12,722**	**¥13,877**	**¥250**	**¥32,846**	**¥(11,519)**	**¥165**	**¥(1,186)**	**¥(382)**	**¥46,773**	**¥ 674**	**¥47,447**

	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	Non-controlling interests	Total equity
Balance, February 28, 2017	$118,897	$130,271	$1,962	$271,925	$(100,775)	$1,308	$(12,654)	$(7,682)	$403,252	$5,673	$408,925
Net income attributable to owners of the parent				**54,028**					**54,028**		**54,028**
Cash dividends, $0.49 per share				**(17,037)**					**(17,037)**		**(17,037)**
Purchase of treasury stock					**(10,701)**				**(10,701)**		**(10,701)**
Disposal of treasury stock		**271**			**1,028**				**1,299**		**1,299**
Retirement of treasury stock		**(850)**		**(1,944)**	**2,794**						
Net change in the year			**374**			**234**	**1,570**	**4,112**	**6,290**	**626**	**6,916**
Balance, February 28, 2018	**$118,897**	**$129,692**	**$2,336**	**$306,972**	**$(107,654)**	**$1,542**	**$(11,084)**	**$(3,570)**	**$437,131**	**$6,299**	**$443,430**

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Operating activities:			
Income before income taxes	¥ 6,359	¥ 3,831	$ 59,430
Adjustments for:			
Income taxes – paid	(1,377)	(906)	(12,869)
Depreciation and amortization	2,198	2,167	20,542
Loss on impairment of long-lived assets	642		6,000
Provision for (reversal of allowance for) doubtful receivables	70	(26)	654
Loss on sale and disposal of property, plant and equipment	15	10	140
Changes in assets and liabilities:			
Increase in trade receivables	(2,460)	(787)	(22,991)
(Increase) decrease in inventories	(653)	946	(6,103)
Increase in trade payables	3,345	384	31,262
Increase (decrease) in liability for retirement benefits	94	(61)	879
Other – net	690	(220)	6,449
Total adjustments	2,564	1,507	23,963
Net cash provided by operating activities	8,923	5,338	83,393
Investing activities:			
Purchases of property, plant and equipment	(3,477)	(984)	(32,495)
Proceeds from sale of property, plant and equipment	56	12	523
(Increase) decrease in short-term investments	(467)	589	(4,364)
Purchases of marketable and investment securities	(2,234)	(131)	(20,878)
Proceeds from sale of marketable and investment securities	990	1,783	9,252
Other – net	119	(456)	1,112
Net cash (used in) provided by investing activities	(5,013)	813	(46,850)
Financing activities:			
Increase in short-term bank loans		500	
Proceeds from issuance of convertible bonds		8,059	
Dividends paid to shareholders	(1,821)	(1,889)	(17,019)
Dividends paid to noncontrolling shareholders of consolidated subsidiaries	(45)	(190)	(421)
Payments for purchase of treasury stock	(1,148)	(6,389)	(10,729)
Disposal of treasury stock	118	72	1,103
Other – net	(30)	(24)	(280)
Net cash (used in) provided by financing activities	(2,926)	139	(27,346)
Foreign currency translation adjustments on cash and cash equivalents	495	(682)	4,626
Net increase in cash and cash equivalents	1,479	5,608	13,823
Cash and cash equivalents at beginning of year	20,478	14,870	191,383
Cash and cash equivalents at end of year	¥21,957	¥20,478	$205,206

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Year Ended February 28, 2018

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 2017 consolidated financial statements to conform to the classifications used in 2018.

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 ¥107 to $1, the approximate rate of exchange at February 28, 2018.

Such translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation

The consolidated financial statements as of February 28, 2018, include the accounts of the Company and its 18 (19 in 2017) 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 2017) 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

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

c. Business Combinations

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

d. Cash Equivalents

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

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

e. Inventories

Inventories are stated at the lower of 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 net selling value.

f. Marketable and Investment Securities

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

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

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

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

g. Property, Plant and Equipment

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

The range of useful lives is principally from 15 to 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.

h. Long-lived Assets

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

i. Retirement and Pension Plans

The Company has a 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.

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

Domestic consolidated subsidiaries have lump-sum retirement benefit plans, and certain foreign consolidated subsidiaries have lump-sum retirement benefit plans or defined contribution pension plans.

j. Asset Retirement Obligations

An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

k. Stock Options

Compensation expense for employee stock options which were granted on and after May 1, 2006 are recognized based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with ASBJ Statement No. 8, “Accounting Standard for Stock Options”. Stock options granted to nonemployees are accounted for based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.

l. Bonuses to Directors and Audit and Supervisory Committee Members

Bonuses to directors and Audit and Supervisory Committee Members are accrued at the year-end to which such bonuses are attributable.

m. Leases

Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.

In March 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the previous accounting standard for lease transactions. Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information was disclosed in the notes to the lessee’s financial statements. The revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

All other leases are accounted for as operating leases.

n. Research and Development Costs

Research and development costs are charged to income as incurred.

o. Income Taxes

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

The Company applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective March 1, 2017. There was no impact from this for the year ended February 28, 2018.

p. Foreign Currency Transactions

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

q. Foreign Currency Financial Statements

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

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

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

r. Derivatives

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

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

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

s. Per Share Information

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

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

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

t. Accounting Changes and Error Corrections

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

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

u. New Accounting Pronouncements

Tax Effect Accounting

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. Earlier application is permitted for annual periods ending on or after March 31, 2018.

The Company expects to apply the revised accounting standard from the end of the annual period beginning on January 1, 2019, and is in the process of measuring the effects of applying the revised accounting standard for the year ended February 28, 2018.

3. Marketable and Investment Securities

Marketable and investment securities at February 28, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Current:			
Corporate and other bonds	¥ 500		$ 4,673
Trust fund investments and other	500		4,673
Total	¥1,000		$ 9,346
Non-current:			
Equity securities	¥ 326	¥295	$ 3,046
Corporate and other bonds	654		6,112
Trust fund investments and other	193	134	1,804
Total	¥1,173	¥429	$10,962

The costs and aggregate fair values of securities classified as available-for-sale at February 28, 2018 and 2017, were as follows:

	Millions of yen			
2018	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	¥ 112	¥146		¥ 258
Corporate and other bonds	1,154			1,154
Trust fund investments and other	529	41		570

	Millions of yen			
2017	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	¥108	¥118		¥226
Trust fund investments and other	29	33		62

	Thousands of U.S. dollars (Note 1)			
2018	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Marketable equity securities	$ 1,047	$1,364		$ 2,411
Corporate and other bonds	10,785			10,785
Trust fund investments and other	4,944	383		5,327

Proceeds from sales of available-for-sale securities for the years ended February 28, 2018 and 2017, were ¥4,490 million ($41,963 thousand) and ¥1,783 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended February 28, 2018, were both nil, and for the year ended February 28, 2017, were ¥258 million and nil, respectively.

4. Short-term Investments

Short-term investments at February 28, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Deposits over three-month period	¥426	¥618	$3,981
Other	173	201	1,617
Total	¥599	¥819	$5,598

5. Trade Notes and Accounts Receivable

The Group follows the practice of including installment receivables due after one year (less unearned interest) in current assets.

Receivables due after one year (less unearned interest) amounted to ¥1,230 million ($11,495 thousand) and ¥1,007 million at February 28, 2018 and 2017, respectively.

6. Inventories

Inventories at February 28, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Merchandise	¥ 672	¥ 520	$ 6,280
Finished products	9,568	10,179	89,421
Work in process	4,251	3,611	39,729
Raw materials and supplies	2,638	2,102	24,654
Total	¥17,129	¥16,412	$160,084

7. Long-lived Assets

The Group reviewed its long-lived assets for impairment as of February 28, 2018, and recognized impairment losses of ¥642 million ($6,000 thousand) as other expenses for production facilities used by the Precision Products Segment due to the downturn in profitability and for the corporate dormitory due to the planned sale.

The recoverable amounts of these assets as of February 28, 2018 were measured at their net selling price, primarily determined by real estate appraisals. No impairment losses were recognized in 2017.

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

Short-term bank loans at February 28, 2018 and 2017, consisted of bank overdrafts. The annual interest rates applicable for the years ended February 28, 2018 and 2017, were both 0.12%.

Long-term debt at February 28, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Zero-coupon convertible bonds due 2021	¥8,052	¥8,068	$75,252
Lease obligations	81	61	757
Total	8,133	8,129	76,009
Less: current portion	28	22	262
Long-term debt, less current portion	¥8,105	¥8,107	$75,747

Annual maturities of long-term debt at February 28, 2018, were as follows:

Years ending February 28 or 29	Millions of yen	Thousands of U.S. dollars (Note 1)
2019	¥ 28	$ 262
2020	22	206
2021	18	168
2022	8,011	74,869
2023	2	19
Total	¥8,081	$75,524

Under specific conditions, the convertible bonds outstanding at February 28, 2018, are convertible into 4,720 thousand shares of common stock of the Company from June 30, 2016 to June 2, 2021 at ¥1,695 ($15.84) per share. The conversion prices of the convertible bonds are subject to adjustments in certain circumstances.

9. Retirement and Pension Plans

The Company and certain consolidated subsidiaries have severance payment plans for employees. Under the pension plans, employees terminating their employment are, 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 28, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Balance at beginning of year	¥9,877	¥9,762	$92,309
Current service cost	182	169	1,701
Interest cost	105	104	981
Actuarial gains and losses	162	128	1,514
Benefits paid	(399)	(286)	(3,729)
Balance at end of year	¥9,927	¥9,877	$92,776

(2) The changes in plan assets for the years ended February 28, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Balance at beginning of year	¥8,264	¥8,036	$77,234
Expected return on plan assets	206	201	1,925
Actuarial gains and losses	187	63	1,748
Contributions from the employer	236	250	2,205
Benefits paid	(399)	(286)	(3,729)
Balance at end of year	¥8,494	¥8,264	$79,383

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of February 28, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Funded defined benefit obligation	¥ 9,861	¥ 9,822	$ 92,159
Plan assets	(8,494)	(8,264)	(79,383)
Total	1,367	1,558	12,776
Unfunded defined benefit obligation	66	55	617
Net liability arising from defined benefit obligation	¥ 1,433	¥ 1,613	$ 13,393

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Liability for retirement benefits	¥1,433	¥1,613	$13,393
Net liability arising from defined benefit obligation	¥1,433	¥1,613	$13,393

(4) The components of net periodic benefit costs for the years ended February 28, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Service cost	¥ 182	¥ 169	$ 1,701
Interest cost	105	104	981
Expected return on plan assets	(206)	(201)	(1,925)
Recognized net actuarial gains and losses	249	123	2,327
Amortization of prior-service cost		(6)	
Net periodic benefit costs	¥ 330	¥ 189	$ 3,084

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended February 28, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Prior-service cost		¥ (6)	
Actuarial gains and losses	¥275	58	$2,570
Total	¥275	¥52	$2,570

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 28, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Unrecognized actuarial gains and losses	¥547	¥822	$5,112
Total	¥547	¥822	$5,112

(7) Plan assets

a. Components of plan assets

Plan assets as of February 28, 2018 and 2017, consisted of the following:

	2018	2017
Debt investments	23%	23%
Equity investments	23	22
General account	34	35
Others	20	20
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 28, 2018 and 2017, are set forth as follows:

	2018	2017
Discount rate	1.1%	1.1%
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 ¥149 million ($1,393 thousand) and ¥133 million for the years ended February 28, 2018 and 2017, respectively.

10. Equity

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

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by their nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective May 26, 2016. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends, until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(c) Treasury Stock and Treasury Stock Acquisition Rights

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

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

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

11. Stock Options

The stock options outstanding as of February 28, 2018, 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 executive officers 14 employees	113,000 shares	July 2, 2012	¥ 827	From June 30, 2014 to June 29, 2018
2013 Stock Option	6 directors 2 executive 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 executive 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 executive officers 16 employees 9 directors of subsidiaries	154,000 shares	June 15, 2015	¥2,203	From June 30, 2017 to June 29, 2021
2016 I Stock Option	3 directors 3 executive officers	36,200 shares	June 13, 2016	¥ 1	From June 13, 2016 to June 12, 2046
2016 II Stock Option	3 directors 6 executive officers 18 employees 9 directors of subsidiaries	168,000 shares	June 13, 2016	¥1,289	From June 29, 2018 to June 28, 2022
2017 I Stock Option	3 directors 4 executive officers	24,700 shares	June 12, 2017	¥ 1	From June 12, 2017 to June 11, 2047
2017 II Stock Option	3 directors 6 executive officers 19 employees 8 directors of subsidiaries	148,000 shares	June 12, 2017	¥1,830	From July 1, 2019 to June 30, 2023

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	2016 I Stock Option	2016 II Stock Option	2017 I Stock Option	2017 II Stock Option
Year ended February 28, 2017											
Non-vested											
February 29, 2016 – Outstanding					181,000		152,000				
Granted								36,200	168,000		
Canceled											
Vested					(181,000)			(36,200)			
February 28, 2017 – Outstanding							152,000		168,000		
Vested											
February 29, 2016 – Outstanding	11,000	22,000	151,300	21,000		17,100					
Vested					181,000			36,200			
Exercised	(7,000)	(2,000)	(40,100)		(13,100)						
Canceled				(2,100)		(4,200)					
February 28, 2017 – Outstanding	4,000	20,000	111,200	18,900	167,900	12,900		36,200			
Year ended February 28, 2018											
Non-vested											
February 28, 2017 – Outstanding							152,000		168,000		
Granted										24,700	148,000
Canceled							(7,000)		(11,000)		(2,000)
Vested							(145,000)			(24,700)	
February 28, 2018 – Outstanding									157,000		146,000
Vested											
February 28, 2017 – Outstanding	4,000	20,000	111,200	18,900	167,900	12,900		36,200			
Vested							145,000			24,700	
Exercised	(2,000)	(16,000)	(41,200)		(38,500)						
Canceled	(2,000)		(7,000)		(7,000)		(2,000)				
February 28, 2018 – Outstanding		4,000	63,000	18,900	122,400	12,900	143,000	36,200		24,700	
Exercise price	¥ 935	¥ 827	¥1,119	¥ 1	¥1,466	¥ 1	¥2,203	¥ 1	¥1,289	¥ 1	¥1,830
Average stock price at exercise	¥1,837	¥1,957	¥1,991		¥1,983						
Fair value price at grant date	¥ 254	¥ 167	¥ 191	¥1,209	¥ 265	¥1,995	¥ 407	¥ 988	¥ 165	¥1,384	¥246

The assumptions used to measure fair value of the 2017 I Stock Options were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	30.595%
Estimated remaining outstanding period:	5.5 years
Estimated dividend:	¥48.00 per share
Risk free interest rate:	(0.070)%

The assumptions used to measure fair value of the 2017 II Stock Options were as follows:

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	31.922%
Estimated remaining outstanding period:	4.1 years
Estimated dividend:	¥48.00 per share
Risk free interest rate:	(0.092)%

12. 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 30.2% and 32.3% for the years ended February 28, 2018 and 2017, respectively.

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

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at February 28, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Current:			
Deferred tax assets			
Unrealized profit on inventories	¥ 353	¥ 220	$ 3,299
Accrued bonuses	276	198	2,580
Tax loss carryforwards	274	290	2,561
Inventories	180	220	1,682
Other – net	167	192	1,561
Less valuation allowance	(34)	(461)	(318)
Total	1,216	659	11,365
Deferred tax liabilities			
Undistributed earnings of associated companies	(543)	(489)	(5,075)
Tax-deductible inventory losses	(61)	(46)	(570)
Other – net	(65)	(68)	(607)
Total	(669)	(603)	(6,252)
Net deferred tax assets (liabilities)	¥ 547	¥ 56	$ 5,113
Non-current:			
Deferred tax assets			
Liability for retirement benefits	¥ 429	¥ 486	$ 4,009
Depreciation	309	210	2,888
Impairment loss	201	45	1,879
Tax loss carryforwards	82	605	766
Write-down of investment securities	45	45	421
Other – net	334	260	3,121
Less valuation allowance	(416)	(1,481)	(3,888)
Total	984	170	9,196
Deferred tax liabilities			
Unrealized gain on available-for-sale securities	(24)	(13)	(224)
Reserve for special depreciation	(20)	(25)	(187)
Property, plant and equipment	(15)	(16)	(140)
Other – net	(21)	(44)	(196)
Total	(80)	(98)	(747)
Net deferred tax assets (liabilities)	¥ 904	¥ 72	$ 8,449

Prior to March 1, 2017, “Allowance for doubtful receivables” under “Deferred tax assets” of “Current” was individually presented. Considering the materiality, “Allowance for doubtful receivables” is included in “Other – net” under “Deferred tax assets” of “Current” from the year ended February 28, 2018.

The amount included in “Other – net” under “Deferred tax assets” of “Current” for the year ended February 28, 2017, was ¥17 million.

A reconciliation between the normal effective statutory tax rate for the years ended February 28, 2018 and 2017, and the actual effective tax rate reflected in the accompanying consolidated statement of income was as follows:

	2018	2017
Normal effective statutory tax rate	**30.2%**	32.3%
Valuation allowance	**(20.6)**	(7.9)
Effect of foreign tax rate differences	**(3.7)**	1.0
Undistributed earnings of associated companies	**2.5**	(5.9)
Unrealized profit on inventories	**(1.7)**	(4.9)
Other – net	**1.0**	0.3
Actual effective tax rate	**7.7%**	14.9%

New tax reform laws enacted in December 2017 in the United States changed the federal corporate income tax rate from 35.0% to 21.0% for the fiscal year beginning on or after January 1, 2018. The impact of this change is insignificant.

13. Research and Development Costs

Research and development costs charged to income were ¥1,994 million ($18,636 thousand) and ¥2,032 million for the years ended February 28, 2018 and 2017, respectively.

14. Leases

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

Obligations under noncancelable operating leases at February 28, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Due within one year	**¥100**	¥ 81	**$ 935**
Due after one year	**252**	189	**2,355**
Total	**¥352**	¥270	**$3,290**

15. Financial Instruments and Related Disclosures

(1) Group Policy for Financial Instruments

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

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

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

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

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

Loans and convertible bonds are used to finance operating activities, capital investment and purchase of treasury stock. Loans are exposed to risks of interest rate fluctuations, but all 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, loans and convertible bonds, 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

	Millions of yen			Thousands of U.S. dollars (Note 1)		
February 28, 2018	Carrying amount	Fair value	Unrealized gain/loss	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥21,957	¥21,957		$205,206	$205,206	
Marketable and investment securities	1,982	1,982		18,523	18,523	
Short-term investments	599	599		5,598	5,598	
Trade receivables	16,956	16,956		158,467	158,467	
Total	¥41,494	¥41,494		$387,794	$387,794	
Trade payables	¥10,312	¥10,312		$ 96,374	$ 96,374	
Short-term bank loans	2,500	2,500		23,365	23,365	
Convertible bonds	8,052	10,664	¥2,612	75,252	99,664	$24,412
Total	¥20,864	¥23,476	¥2,612	$194,991	$219,403	$24,412
Derivatives	¥ 105	¥ 105		$ 981	$ 981	

	Millions of yen		
February 28, 2017	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥20,478	¥20,478	
Marketable and investment securities	288	288	
Short-term investments	819	819	
Trade receivables	14,209	14,209	
Total	¥35,794	¥35,794	
Trade payables	¥ 6,824	¥ 6,824	
Short-term bank loans	2,500	2,500	
Convertible bonds	8,068	9,072	¥1,004
Total	¥17,392	¥18,396	¥1,004
Derivatives	¥ (131)	¥ (131)	

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.

Convertible bonds

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

Derivatives

Information on the fair value of derivatives is included in Note 15.

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

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Investments in equity instruments that do not have a quoted market price in an active market	¥ 68	¥ 69	$ 635
Investments in unconsolidated subsidiaries and associated companies	291	304	2,720
Investments in limited partnerships	123	72	1,150
Total	¥482	¥445	$4,505

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

	Millions of yen			
February 28, 2018	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥21,957			
Marketable and investment securities	1,000	¥ 788	¥25	
Short-term investments	599			
Trade receivables	15,726	1,224	6	
Total	¥39,282	¥2,012	¥31	

	Millions of yen			
February 28, 2017	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	¥20,478			
Marketable and investment securities		¥ 72		
Short-term investments	819			
Trade receivables	13,202	1,004	¥3	
Total	¥34,499	¥1,076	¥3	

	Thousands of U.S. dollars (Note 1)			
February 28, 2018	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and cash equivalents	$205,206			
Marketable and investment securities	9,346	$ 7,365	$234	
Short-term investments	5,598			
Trade receivables	146,972	11,439	56	
Total	$367,122	$18,804	$290	

16. Derivatives

Derivative transactions to which hedge accounting is not applied

	Millions of yen			
At February 28, 2018	Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Selling	¥4,450		¥129	¥129
Buying	1,924		(24)	(24)
Total	¥6,374		¥105	¥105

At February 28, 2017	Millions of yen Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Selling	¥3,410		¥ 16	¥ 16
Buying	2,146		(147)	(147)
Total	¥5,556		¥(131)	¥(131)

At February 28, 2018	Thousands of U.S. dollars (Note 1) Contracted amount	Contracted amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts:				
Selling	**$41,589**		**$1,205**	**$1,205**
Buying	**17,981**		**(224)**	**(224)**
Total	**$59,570**		**$ 981**	**$ 981**

17. Other Comprehensive Income

The components of other comprehensive income for the years ended February 28, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Unrealized gain (loss) on available-for-sale securities:			
Gains arising during the year	**¥ 36**	¥ 185	**$ 337**
Reclassification adjustments to profit or loss		(260)	
Amount before income tax effect	**36**	(75)	**337**
Income tax effect	**(11)**	33	**(103)**
Total	**¥ 25**	¥ (42)	**$ 234**
Foreign currency translation adjustments:			
Adjustments arising during the year	**¥193**	¥(1,394)	**$1,804**
Reclassification adjustments to profit or loss	**7**		**65**
Total	**¥200**	¥(1,394)	**$1,869**
Defined retirement benefit plans:			
Adjustments arising during the year	**¥ 25**	¥ (65)	**$ 234**
Reclassification adjustments to profit or loss	**250**	117	**2,336**
Amount before income tax effect	**275**	52	**2,570**
Income tax effect	**165**		**1,542**
Total	**¥440**	¥ 52	**$4,112**
Share of other comprehensive income in an associate:			
Losses arising during the year	**¥ (10)**	¥ (10)	**$ (93)**
Total	**¥ (10)**	¥ (10)	**$ (93)**
Total other comprehensive income	**¥655**	¥(1,394)	**$6,122**

18. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended February 28, 2018 and 2017, was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income attributable to owners of the parent	Weighted-average shares	EPS	
Year ended February 28, 2018				
Basic EPS				
Net income attributable to common shareholders	**¥5,781**	**37,131**	**¥155.68**	**$1.45**
Effect of dilutive securities				
Convertible bonds	**(24)**	**4,720**		
Stock acquisition rights		**201**		
Diluted EPS				
Net income for computation	**¥5,757**	**42,052**	**¥136.90**	**$1.28**
Year ended February 28, 2017				
Basic EPS				
Net income attributable to common shareholders	¥3,181	38,908	¥ 81.77	
Effect of dilutive securities				
Convertible bonds	(20)	3,336		
Stock acquisition rights		90		
Diluted EPS				
Net income for computation	¥3,161	42,334	¥ 74.69	

19. 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 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."

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

2018	Special Products	Machine Tools	Precision Products	Total	Reconciliations	Consolidated
	Millions of yen					
	Reportable Segment					
Sales to external customers	¥12,306	¥44,342	¥4,125	¥60,773		¥60,773
Intersegment sales or transfers						
Total	12,306	44,342	4,125	60,773		60,773
Segment profit	¥ 1,627	¥ 7,027	¥ 255	¥ 8,909	¥ (2,699)	¥ 6,210
Segment assets	¥ 9,678	¥43,942	¥6,091	¥59,711	¥17,652	¥77,363
Other items:						
Depreciation	196	1,096	528	1,820	378	2,198
Investments in associates	287			287		287
Increase in property, plant and equipment and intangible assets	124	555	287	966	2,539	3,505

2017	Special Products	Machine Tools	Precision Products	Total	Reconciliations	Consolidated
	Millions of yen					
	Reportable Segment					
Sales to external customers	¥11,082	¥33,629	¥4,226	¥48,937		¥48,937
Intersegment sales or transfers						
Total	11,082	33,629	4,226	48,937		48,937
Segment profit	¥ 1,345	¥ 4,373	¥ 285	¥ 6,003	¥ (2,396)	¥ 3,607
Segment assets	¥ 9,286	¥39,260	¥6,685	¥55,231	¥13,120	¥68,351
Other items:						
Depreciation	209	1,138	585	1,932	235	2,167
Investments in associates	301			301		301
Increase in property, plant and equipment and intangible assets	137	766	389	1,292	149	1,441

2018	Special Products	Machine Tools	Precision Products	Total	Reconciliations	Consolidated
	Thousands of U.S. dollars (Note 1)					
	Reportable Segment					
Sales to external customers	$115,009	$414,411	$38,552	$567,972		$567,972
Intersegment sales or transfers						
Total	115,009	414,411	38,552	567,972		567,972
Segment profit	$ 15,205	$ 65,673	$ 2,383	$ 83,261	$ (25,224)	$ 58,037
Segment assets	$ 90,449	$410,673	$56,925	$558,047	$164,972	$723,019
Other items:						
Depreciation	1,832	10,243	4,934	17,009	3,533	20,542
Investments in associates	2,682			2,682		2,682
Increase in property, plant and equipment and intangible assets	1,159	5,187	2,682	9,028	23,729	32,757

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

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

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

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

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

Related Information

1. Related information by geographical area at February 28, 2018 and 2017, consisted of the following:

(1) Net Sales

2018	Japan	USA	China	Germany	Others	Total
	Millions of yen					
	¥10,205	¥14,636	¥8,841	¥7,323	¥19,768	¥60,773

2017	Millions of yen					
	Japan	USA	China	Germany	Others	Total
	¥8,221	¥13,084	¥6,317	¥5,836	¥15,479	¥48,937

2018	Thousands of U.S. dollars (Note 1)					
	Japan	USA	China	Germany	Others	Total
	$95,374	**$136,785**	**$82,626**	**$68,439**	**$184,748**	**$567,972**

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

(2) Property, Plant and Equipment

2018	Millions of yen				
	Japan	Thailand	China	Others	Total
	¥8,156	**¥3,215**	**¥1,691**	**¥1,014**	**¥14,076**

2017	Millions of yen				
	Japan	Thailand	China	Others	Total
	¥6,175	¥3,973	¥1,825	¥953	¥12,926

2018	Thousands of U.S. dollars (Note 1)				
	Japan	Thailand	China	Others	Total
	$76,224	**$30,047**	**$15,804**	**$9,476**	**$131,551**

2. Information for impairment loss of long-lived assets by reportable segments at February 28, 2018 and 2017, were as follows:

No impairment loss was recognized in 2017.

	Millions of yen					
	Reportable Segment					
2018	Special Products	Machine Tools	Precision Products	Total	Eliminations or Corporate	Consolidated
			¥418	**¥418**	**¥224**	**¥642**

	Thousands of U.S. dollars (Note 1)					
	Reportable Segment					
2018	Special Products	Machine Tools	Precision Products	Total	Eliminations or Corporate	Consolidated
			$3,907	**$3,907**	**$2,093**	**$6,000**

20. Related Party Disclosures

Transactions of the Company with related parties for the years ended February 28, 2018 and 2017, were as follows:

Year ended February 28, 2018

Related party	Category	Description of transaction	Millions of yen	Thousands of U.S. dollars (Note 1)
Mamoru Sato	President and CEO	Exercise of stock options	**¥12**	**$112**
Hiroshi Tanaka	Managing Director	Exercise of stock options	**¥18**	**$168**
Simon Martin	Director of subsidiary	Exercise of stock options	**¥10**	**$ 93**

Year ended February 28, 2017

Related party	Category	Description of transaction	Millions of yen
Michael Hanson	Director of subsidiary	Exercise of stock options	¥12

21. Subsequent Event

The following appropriation of retained earnings at February 28, 2018, is to be approved at the Company's shareholders' meeting held on May 24, 2018:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥27 ($0.252) per share	**¥994**	**$9,290**

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 28, 2018, 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 28, 2018, 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 24, 2018

Member of
Deloitte Touche Tohmatsu Limited

Stock Information

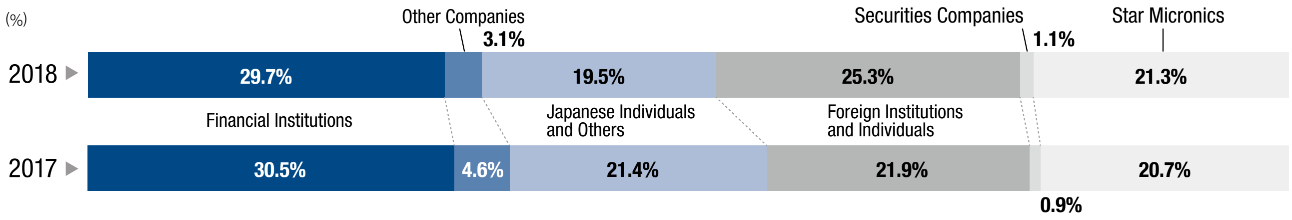
as of February 28, 2018

Common Stock	Authorized	158,000,000	**Stock Listing**	First Section of the Tokyo Stock Exchange
	Issued	46,774,634*	**Transfer Agent**	Mitsubishi UFJ Trust and Banking Corporation
Paid-in Capital		12,721,939,515 yen		1-4-5 Marunouchi, Chiyoda,
Number of Shareholders		8,906		Tokyo 100-8212, Japan

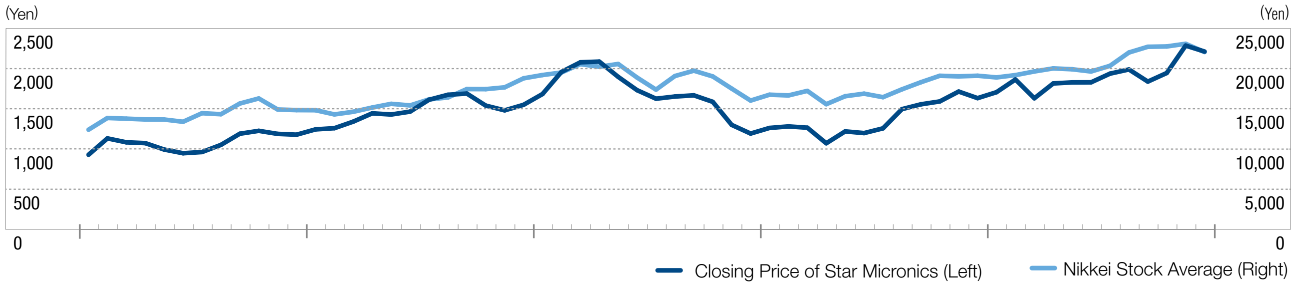
* The decrease in the number of shares issued was due to a retirement of 258,600 shares.

COMPOSITION OF SHAREHOLDERS

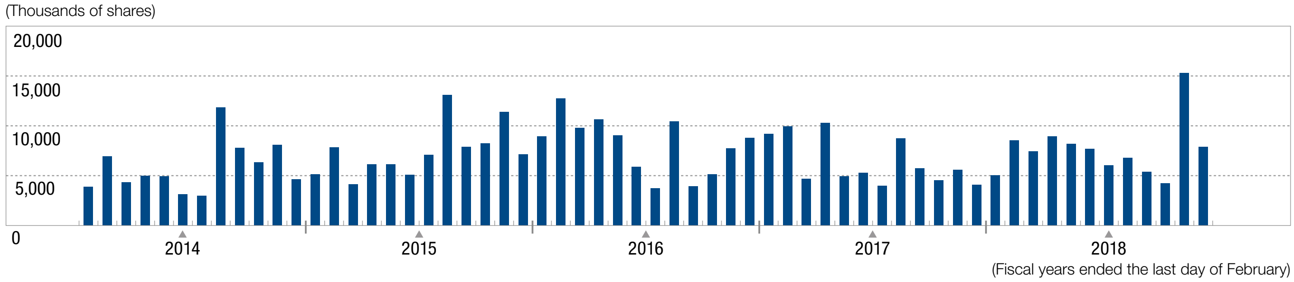
(%)



STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)



TRADING VOLUME



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	2014	2015	2016	2017	**2018**
At year-end	1,178	1,550	1,192	1,633	**2,213**
High	1,422	1,885	2,238	1,770	**2,480**
Low	857	1,115	1,125	1,023	**1,588**

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