

January 8, 2014

## Fiscal 2014 Third-quarter Consolidated Earnings Report (Japanese GAAP)

Company name: Star Micronics Co., Ltd.

Stock listing: First Section, Tokyo Stock Exchange

Code: 7718 URL <http://www.star-m.jp>

Representative Director: Hajime Sato, President and CEO

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Scheduled release of fiscal 2014 Third-quarter Business Report: January 10, 2014

Scheduled payment of dividends: -

Preparation of supplementary explanatory materials for quarterly earnings report: Yes

Quarterly earnings presentation: None

(Figures less than one million are rounded down)

### 1. Results for the First Three Quarters of Fiscal 2014 (March 1, 2013 to November 30, 2013)

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

	Net Sales		Operating Income		Ordinary Income		Net Income	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Nine months ended November 30, 2013	29,806	6.2	1,268	(12.7)	1,809	5.9	796	(63.3)
Nine months ended November 30, 2012	28,059	(7.3)	1,453	(47.2)	1,708	(38.3)	2,167	43.1

(Note) Comprehensive income

FY2014 Third Quarter ¥4,075 million(88.7%) FY2013 Third Quarter ¥2,160 million(120.1 %)

	Net Income Per Share	Diluted Net Income Per Share
	(¥)	(¥)
Nine months ended November 30, 2013	18.92	18.91
Nine months ended November 30, 2012	51.51	—

### (2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	(¥ million)	(¥ million)	%
As of November 30, 2013	57,272	43,589	74.6
As of February 28, 2013	52,564	40,710	76.1

Reference: Shareholders' Equity

As of November 30, 2013 ¥42,750 million As of February 28, 2013 ¥40,019 million

### 2. Dividends

	Dividends Per Share				
	1Q end	2Q end	3Q end	Year-end	Full Year
	(¥)	(¥)	(¥)	(¥)	(¥)
Year ended February 28, 2013	—	15.00	—	15.00	30.00
Year ending February 28, 2014	—	17.00	—		
Year ending February 28, 2014 (projected)				17.00	34.00

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

### 3. Consolidated Outlook for the Fiscal Year Ending February 28, 2014 (From March 1, 2013 to February 28, 2014)

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

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income Per Share
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥)
Full Year	41,300	9.1	2,500	58.3	2,900	28.6	1,700	(26.1)	40.40

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

\*Notes

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

(Note) Please see "2. Summary Information" "Changes in accounting policies, accounting estimates and restatement of corrections" on page 4.

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

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

As of November 30, 2013	47,033,234 shares	As of February 28, 2013	47,033,234 shares
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- (ii) Number of treasury stock at period-end

As of November 30, 2013	4,935,367 shares	As of February 28, 2013	4,957,879 shares
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- (iii) Average number of outstanding shares (during the nine months ended November 30)

As of November 30, 2013	42,077,773 shares	As of November 30, 2012	42,075,624 shares
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\* Disclosure regarding progress of quarterly review procedures

This quarterly earnings report is not subject to quarterly reviews stipulated in the Financial Instruments and Exchange Act of Japan. As of the time this report was released, the Company has not completed review procedures for the quarterly consolidated financial statements based on the Financial Instruments and Exchange Act.

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

The above projections are based on information available at the time of release of this report and certain assumptions the Company considers reasonable. Actual results may differ materially from projections due to a variety of factors. For information regarding the assumptions and other matters related to earnings projections in this report, refer to "(3) Qualitative Information Concerning the Consolidated Earnings Projections" under "1. Qualitative Financial Information" on page 4.

## **1. Qualitative Financial Information**

### **(1) Qualitative Information Related to Consolidated Operating Results**

During the first three quarters of the fiscal year ending February 28, 2014, the U.S. economy remained on a modest recovery path. European economies started to show signs of economic recovery, including a return to a positive growth rate. In Asian economies, the pace of growth slowed, particularly in China. In Japan, there were signs that the economy was gradually recovering, supported by the yen's depreciation.

In the major markets in which the Star Micronics Group operates, demand in the Machine Tools Segment started to gradually show signs of recovery in the European and Japanese markets, where conditions had remained challenging. There was also steady growth in demand in the U.S. and East Asian markets. In the Special Products Segment, the effect of relatively robust demand from markets in North America and Japan was offset by lackluster market conditions in Europe and China. In the Precision Products Segment, demand for wristwatch components, which had been impacted by wristwatch makers' production cutbacks, started to recover from the latter half of the period. In non-wristwatch components, however, demand for automobile-related components was weak overseas, while demand also contracted for components mainly for hard disk drives (HDDs).

Amid this environment, the Star Micronics Group focused its business activities on those with an emphasis on Southeast Asia, South America and other projected growth regions, along with the European and U.S. markets. While bolstering its production and sales frameworks, the Group pressed ahead with measures such as developing new products and pursuing research into new technologies.

As a result of the above factors, against the backdrop of a weaker yen, Star Micronics reported consolidated net sales of ¥29,806 million, up 6.2% year on year, for the first three quarters of fiscal 2014. As regards profits, a weak performance in the Machine Tools Segment and other areas resulted in operating income of ¥1,268 million, down 12.7% year on year. However, ordinary income was ¥1,809 million, up 5.9% year on year, mainly due to the recording of foreign exchange gain-net. The Group posted net income of ¥796 million, a substantial decrease of 63.3% from the same period last year, when insurance income was posted as an extraordinary gain.

Performance by segment was as follows:

From the first quarter of the fiscal year ending February 28, 2014, the name of the former Components Segment was changed to the Micro Audio Components Segment. This change in the segment name has had no impact on the segment information.

Performance by segment was as follows:

#### **(Special Products)**

In POS printers, sales of thermal printers rose on the back of robust growth in demand from markets in North America and Japan, where business conditions have continued to recover modestly. Other contributing factors included new orders captured in the European market, as well as the yen's depreciation. Furthermore, sales of dot-matrix printers remained mostly unchanged year on year, due partly to the positive impact of currency exchange rates, despite stagnant demand from markets in Europe and Asia.

As a result, segment sales increased 15.5% year on year to ¥6,719 million, with operating income up 183.0% to ¥600 million.

#### **(Micro Audio Components)**

This segment made preparations for its scheduled termination while ensuring that it continues to fulfill its supply responsibilities to customers.

As a result, sales in this segment decreased 7.3% year on year to ¥2,247 million. Operating income was ¥81 million, compared to an operating loss of ¥169 million in the same period a year earlier.

Star Micronics completed transferring the Micro Audio Components Segment to Foster Electric Company, Limited on January 1, 2014.

### **(Machine Tools)**

In CNC automatic lathes, sales in the U.S. increased on the back of steady growth in the medical equipment and other sectors, helped partly by the positive impact of currency exchange rates. Sales in the Asian market also rose atop growth in demand from the mobile device-related, medical equipment and other sectors in East Asia. Meanwhile, monetary sales in the mainstay European market increased year on year, partly due to the positive impact of currency exchange rates, despite lower sales volume amid lackluster overall market conditions in the first half. Furthermore, although the market outlook had remained uncertain, the Japanese market saw increased activity in the automobile-related sector. Nevertheless, this was not enough to make up for decreased sales in the first half. Consequently, there was a decrease in sales in Japan.

As a result, segment sales increased 8.3% year on year to ¥18,009 million. However, operating income dropped by 10.0% to ¥2,183 million, mainly due to lower sales volume.

The Group exhibited a new model of its bestselling SB series of CNC Swiss-type multi-axis lathes at the China International Machine Tool Show (CIMT 2013) held in China in April 2013. Furthermore, the Group unveiled the Swiss Type Automatic Lathe SV-38R complex machine at the EMO Hannover 2013 international trade show held in Germany in September 2013. The Group also completed construction of a building for its new plant in Thailand, and began conducting assembly at the new plant in April 2013.

### **(Precision Products)**

Sales of wristwatch components fell sharply due to the negative impact of lower sales in the first half, despite a rebound in wristwatch component sales as wristwatch makers made progress on inventory adjustments in response to weak sales.

In non-wristwatch components, sales of air conditioning-related components were brisk, while sales of automobile-related components were mostly on a par with the same period a year earlier, supported by the positive impact of currency exchange rates. However, these gains were offset by a year-on-year decrease in sales of components for hard disk drives (HDDs), reflecting the impact of lower PC sales. Consequently, overall sales of non-wristwatch components were mostly unchanged year on year.

As a result, segment sales decreased 11.2% year on year to ¥2,829 million, and operating income fell substantially by 69.1% to ¥134 million, mainly because of the lower segment sales.

## **(2) Qualitative Information Concerning Consolidated Financial Position**

Total assets at the end of the third quarter amounted to ¥57,272 million, an increase of ¥4,708 million from February 28, 2013. In addition to the overall impact of currency exchange rates, the change was mainly attributable to increases in inventories and trade notes and accounts receivable.

Total liabilities amounted to ¥13,683 million, an increase of ¥1,829 million from February 28, 2013, primarily due to increases in trade notes and accounts payable, and in other current liabilities. Total net assets amounted to ¥43,589 million, an increase of ¥2,878 million compared to February 28, 2013, mainly due to an improvement in foreign currency translation adjustments.

## **(3) Qualitative Information Concerning the Consolidated Earnings Projections**

Earnings projections have been left unchanged from the projections announced on September 30, 2013.

## **2. Summary Information**

Changes in accounting policies, accounting estimates and restatement of corrections  
(Change in depreciation method)

Following the revision of the Corporation Tax Act, from the first quarter of the fiscal year ending February 28, 2014, Star Micronics and its domestic consolidated subsidiaries have changed their depreciation method for property, plant and equipment acquired on or after March 1, 2013 in accordance with the revised Corporation Tax Act. The impact of this change on profit and loss is minor.

Changes in accounting estimates

(Changes in the recognition period for actuarial gain/loss and the amortization period for prior service cost in the provision for retirement benefits)

Previously, the recognition period for actuarial gain/loss and the amortization period for prior service cost was 12 years. From the third quarter of the fiscal year ending February 28, 2014, the Company has revised the recognition period and the amortization period to 11 years in line with a reduction in the average remaining years of service of employees.

This change will have a negligible impact on profit or loss for the first three quarters of the fiscal year ending February 28, 2014.