

April 10, 2014

Consolidated Earnings Report for the Fiscal Year Ended February 28, 2014 (Japanese GAAP)

Company name: Star Micronics Co., Ltd.

Stock listing: First Section, Tokyo Stock Exchange

Code no.: 7718 URL <http://www.star-m.jp>

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Scheduled annual general meeting of shareholders: May 22, 2014

Scheduled payment of dividends: May 23, 2014

Scheduled release of fiscal 2014 business report: May 23, 2014

Preparation of supplementary explanatory materials for earnings report: Yes

Earnings presentation: Yes

(Figures less than one million are rounded down)

1. Consolidated Results for the Fiscal Year Ended February 28, 2014 (From March 1, 2013 to February 28, 2014)

(1) Consolidated Operating Results

(Percentages represent changes over the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Year Ended February 28, 2014	43,481	14.9	2,606	65.0	3,219	42.8	1,143	(50.3)
Year Ended February 28, 2013	37,858	(9.1)	1,579	(60.0)	2,254	(44.0)	2,299	(5.2)

(Note) Comprehensive income

Year ended February 2014 ¥6,177 million (26.4 %) Year ended February 2013 ¥4,888 million (151.7 %)

	Net Income per Share	Diluted Net Income per Share	Ratio of Net Income to Shareholders' Equity	Ratio of Ordinary Income to Total Assets	Ratio of Operating Income to Net Sales
	(¥)	(¥)	%	%	%
Year Ended February 28, 2014	27.17	27.14	2.7	5.8	6.0
Year Ended February 28, 2013	54.66	-	6.0	4.3	4.2

Reference: Equity in earnings of affiliated companies

Year ended February 2014 ¥28 million

Year ended February 2013 ¥ - million

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	(¥ million)	(¥ million)	%	(¥)
As of February 28, 2014	59,302	45,697	75.5	1,063.52
As of February 28, 2013	52,564	40,710	76.1	951.14

Reference: Shareholders' Equity

As of February 28, 2014 ¥44,772 million

As of February 28, 2013 ¥40,019 million

(3) Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Year-end Cash and Cash Equivalents
	(¥ million)	(¥ million)	(¥ million)	(¥ million)
Year Ended February 28, 2014	2,596	(2,455)	(1,394)	14,080
Year Ended February 28, 2013	483	(1,907)	(1,201)	13,198

2. Dividends

	Dividends per Share					Dividends Total (Year)	Dividend Payout Ratio (Consolidated)	Dividend on Equity Ratio (Consolidated)
	1Q end	2Q End	3Q end	Year-end	Full Year			
	(¥)	(¥)	(¥)	(¥)	(¥)	(¥ million)	%	%
FY2013	-	15.00	-	15.00	30.00	1,262	54.9	3.3
FY2014	-	17.00	-	17.00	34.00	1,430	125.1	3.4
FY2015 (projected)	-	19.00	-	19.00	38.00		44.4	

3. Consolidated Outlook for the Fiscal Year Ending February 28, 2015 (From March 1, 2014 to February 28, 2015)

(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)	%	(¥)
Interim	21,400	11.1	1,750	251.2	1,900	127.9	1,300	472.4	30.88
Full Year	46,500	6.9	4,700	80.3	5,000	55.3	3,600	214.9	85.51

*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: None
Excluded company: None

(2) Changes in principles, procedures and classifications of accounting standards

(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

(3) Number of shares issued and outstanding (common stock)

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

As of February 28, 2014	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 February 28, 2014	4,934,661 shares	As of February 28, 2013	4,957,879 shares
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(iii) Average number of outstanding shares

For the 12-month ended February 28, 2014	42,082,978 shares	For the 12-month ended February 28, 2013	42,075,556 shares
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(Reference) Overview of Non-consolidated Financial Results

1. Non-consolidated Results for the Fiscal Year Ended February 28, 2014 (March 1, 2013 to February 28, 2014)

(1) Non-consolidated Operating Results

(Percentages represent changes over the previous fiscal year)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	(¥ million)	%	(¥ million)	%	(¥ million)	%	(¥ million)	%
Year Ended February 28, 2014	29,294	7.2	(466)	-	3,706	65.6	3,068	22.7
Year Ended February 28, 2013	27,326	(8.8)	(1,005)	-	2,238	(9.3)	2,501	(22.4)

	Net Income per Share	Diluted Net Income per Share
Year Ended February 28, 2014	72.92 (¥)	72.85 (¥)
Year Ended February 28, 2013	59.46	-

(2) Non-consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
	(¥ million)	(¥ million)	%	(¥)
As of February 28, 2014	46,516	36,622	78.6	868.63
As of February 28, 2013	43,687	34,607	79.1	821.69

Reference: Shareholders' Equity

As of February 28, 2014 ¥36,568 million

As of February 28, 2013 ¥34,572 million

*Disclosure regarding status of auditing procedure enactment

This earnings report is not subject to the auditing procedures stipulated by Japan's Financial Instruments and Exchange Act. Consequently, auditing procedures for financial statements based on the Financial Instruments and Exchange Act were not completed as of date of release of this report.

*Regarding the appropriate use of earnings projections, and other special matters

The above projections are based on information available at the time of release of this report and certain assumptions the Company considers reasonable. The Company does not promise that these projections will be achieved. 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 "1. Analysis of Operating Results (ii) Outlook for Fiscal 2015" under "(1) Current State of the Star Micronics Group" page 4.

1. Analysis of Operating Results

(1) Current State of the Star Micronics Group

(i) Consolidated Results for the Year Ended February 28, 2014

During the fiscal year ended 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 remained strong in the U.S. and East Asian markets, while it bottomed out in the European market after a period of difficult conditions, and also showed signs of continuing to recover in Japan. In the Special Products Segment, demand was comparatively robust in North America and Japan, and the market in Europe also entered a gradual recovery trend; however, these factors were offset by lackluster market conditions in 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 fiscal year. In non-wristwatch components, demand for components for hard disk drives (HDDs) decreased, but demand for automobile-related components increased.

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 ¥43,481 million, up 14.9% year on year, for the fiscal year ended February 28, 2014. Profits increased substantially on the back of increased sales, with operating income at ¥2,606 million, up 65.0% year on year, and ordinary income at ¥3,219 million, up 42.8% year on year. However, due to recording a ¥650 million patent right settlement as an extraordinary loss, net income decreased 50.3% year on year to ¥1,143 million, in relation to the previous fiscal year, when an extraordinary gain on insurance income was posted.

Performance by segment was as follows:

From the fiscal year under review, the name of the former Components Segment was changed to the Micro Audio Components Segment. This change in the segment name had no impact on the segment information.

(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 economic 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 increased 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 21.1% year on year to ¥9,455 million, with operating income up 279.0% to ¥975 million.

(Micro Audio Components)

After fulfilling its responsibility to supply customers with products, this business segment was closed following the transfer of business operations to Foster Electric Company, Limited, which was completed on January 1, 2014.

As a result, sales in this segment decreased 2.1% year on year to ¥3,166 million. Operating income was ¥143 million, compared to an operating loss of ¥191 million in the previous fiscal year.

(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, despite sluggish sales in the Chinese market. Sales in the mainstay European market increased after lackluster conditions in the first half of the fiscal year began to recover gradually from the summer onward, and were also aided by the impact of currency exchange rates. After a stretch of uncertain business outlook, sales in the Japanese market increased toward the second half of the fiscal year, centered on the automobile-related sector.

As a result, segment sales increased 17.8% year on year to ¥26,969 million, with operating income up

15.3% to ¥3,597 million.

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 venues including the EMO Hannover 2013 international trade show held in Germany in September 2013 and MECHATRONICS TECHNOLOGY JAPAN 2013, held in Nagoya, Japan in October. The Group also completed construction of a building for its new plant in Thailand, and began assembly production at the new plant in April 2013.

(Precision Products)

Sales of wristwatch components fell after a recovery due to a decline in the first half despite rebounding in the second half as watch-makers made inventory adjustments. In non-wristwatch components, sales of components for HDDs fell in line with a decline in PC sales, despite the positive effect of currency exchange rates. By contrast, sales were brisk for air conditioning-related components and increased for automobile-related components. Consequently, overall sales of non-wristwatch components increased from the previous fiscal year.

As a result, segment sales decreased 0.8% year on year to ¥3,891 million, and operating income fell substantially by 60.6% to ¥140 million, mainly because of the lower segment sales.

(ii) Outlook for Fiscal 2015

The outlook for fiscal 2015, or the year ending February 28, 2015, is for the global economy recover gradually, despite uncertainties lingering for the emerging economies among other considerations.

Under these circumstances, in consolidated business performance for the coming fiscal year, an increase in sales on a recovery in orders from mainly the European and Asian markets in the Machine Tools Segment is expected. Moreover, sales in the Special Products Segment are expected to increase, primarily in the European and U.S. and Chinese markets, while the Precision Products Segment is expected to see an increase in wristwatch component sales. On the whole, consolidated net sales are expected to increase, outweighing a decline due to the closure of the Micro Audio Components Segment.

As a result, the Group is forecasting net sales of ¥46,500 million, an increase of 6.9% year on year. On the earnings front, the Group forecasts operating income of ¥4,700 million, an increase of 80.3% year on year, mainly due to the increase in net sales, and ordinary income of ¥5,000 million, up 55.3% year on year. Net income is projected to increase substantially, by 214.9% year on year, to ¥3,600 million.

These projections assume a foreign exchange rate of ¥100 to \$1, and ¥135 to 1 euro.

(2) Analysis of Financial Position

(i) Total Assets, Total Liabilities and Net Assets

Total assets as of February 28, 2014 were ¥59,302 million, up ¥6,738 million from February 28, 2013. This was primarily due to increases in trade notes and accounts receivable and inventories amid foreign currency exchange rates affecting the consolidated balance sheet as a whole. Total liabilities were ¥13,604 million, up ¥1,750 million from the end of the previous fiscal year. This was mainly attributable to increases in trade notes and accounts payable and current liabilities-other. Net assets stood at ¥45,697 million, up ¥4,987 million from February 28, 2013, because foreign currency translation adjustments had improved.

(ii) Cash Flows

Cash and cash equivalents as of February 28, 2014 were ¥14,080 million, up ¥882 million from February 28, 2013. This was the result of ¥2,596 million in net cash provided by operating activities and a ¥2,135 million translation adjustment on cash and cash equivalents, which was partly offset by ¥2,455 million and ¥1,394 million in net cash used in investing and financing activities respectively.

(Operating Activities)

During the fiscal year ended February 28, 2014, operating activities provided net cash of ¥2,596 million, up from ¥483 million provided in the previous fiscal year. The main contributing factors were increases in income before income taxes and minority interests and depreciation and amortization, which were partially offset by increases in income taxes-paid and trade receivables.

(Investing Activities)

Investing activities used net cash of ¥2,455 million, up from ¥1,907 million used in the year before, mainly due to purchase of property, plant and equipment.

(Financing Activities)

Financing activities used net cash of ¥1,394 million, up from ¥1,201 million used in the previous fiscal year, mainly to pay dividends to shareholders.

(Trends in Cash Flow Related Indices)

	FY2 2010	FY2 2011	FY2 2012	FY2 2013	FY2 2014
Equity Ratio (%)	80.1	73.9	70.2	76.1	75.5
Market Value Basis Equity Ratio (%)	76.3	81.3	65.3	75.5	83.6
Debt / Cash Flow Ratio(Years)	0.4	0.6	0.4	4.1	0.8
Interest Coverage Ratio(Times)	309.9	240.7	373.9	35.9	164.1

- (Note)
- | | |
|-----------------------------------|---------------------------------------|
| 1 Equity Ratio | : Shareholders Equity / Total Assets |
| 2 Market Value Basis Equity Ratio | : Market Capitalization/ Total Assets |
| 3 Debt / Cash Flow Ratio | : Debt/ Cash Flows |
| 4 Interest Coverage Ratio | : Cash Flows/Interest Payments |

*Calculation based on the consolidated basis financial figures.

*Market capitalization is calculated by multiplying the closing price as of the end of the fiscal year by the total number of shares issued and outstanding (excluding treasury stock).

*“Cash flow” uses the net cash provided by operating activities from the consolidated cash flow statement. “Interest-bearing liabilities” comprises all the liabilities recorded on the consolidated balance sheet for which interest must be paid. “Interest payments” uses the amount of interest paid from the consolidated cash flow statement.

(3) Basic Dividend Policy and Dividends for This Fiscal Year and the Next

The Company emphasizes shareholder returns in distributing profits, and will institute such returns in close consideration of dividend on equity (DOE), targeting a dividend payout ratio of at least 40%.

In accordance with this policy, Star Micronics plans to increase its year-end dividend to ¥17 per share, by ¥2 per share from the previous fiscal year. Consequently, the annual dividend—including a ¥17 interim dividend—will be ¥34 per share for the year ended February 28, 2014. Furthermore, the Company has budgeted a ¥4 increase in the annual dividend to ¥38 per share, or an interim and year-end dividend of ¥19 each, for the year ending February 28, 2015.

Retained earnings will be used to invest in growth businesses with the aim of sustaining the Company’s growth, enhancing corporate value and improving shareholder returns.