

TO OUR SHAREHOLDERS



Raising Corporate Value on
Steady Success
—Eyes on Today and Tomorrow

Orders improved in all the major markets in which the Star Micronics Group operates, particularly the Machine Tools segment, as the global economy saw a gradual recovery. As a result, the Star Micronics Group made an overall profit on the back of revitalized sales figures, a major turnaround after the tough financial performance of the previous term. Going forward, we intend to continue to steadily implement those strategies that have served the Group well so far in order to stimulate further recovery in performance. Furthermore, it is extremely important that we select strategies that realistically play to our strengths after properly evaluating our management resources.

HAJIME SATO
President and CEO

REVIEW OF BUSINESS PERFORMANCE

In fiscal 2011, the year ended February 28, 2011, demand increased in the major markets in which the Star Micronics Group operates. The Machine Tools Segment enjoyed strong demand from Asia, as well as an improvement in orders received in Europe, where recovery had lagged. The Special Products and Precision Products segments also saw increased demand due to improving market conditions.

As a result of these factors, Star Micronics reported consolidated net sales of ¥35,718 million, recovering 22.4% year-on-year, in fiscal 2011. As regards profits, we reported operating income of ¥1,429 million, representing a sharp improvement from the previous year. Net income for the year was ¥161 million and came despite the posting of special severance payments for early retired employees.

To compensate our shareholders, Star Micronics decided to pay a full-year dividend of ¥22 per share.

UNDERSTANDING MARKET CONDITIONS

In fiscal 2011, the most notable point concerning market conditions for the Star Micronics Group was a rebound in machine tool demand in the European market. The euro's depreciation created favorable conditions in automobiles and precision product-related export industries in Europe, particularly in Germany. Furthermore, the freeze on capital investment at most companies, which has lasted over a year and was triggered by economic weakness over the last several years, is causing local shortages in machine tools. In these conditions, we are seeing a recovery in orders from Germany, Switzerland, the U.K. and other European markets.

Turning to the U.S. market, there were no major shortfalls thanks to firm orders for medical-related machine tools. Similarly, the overall impression in POS printers, where trends in consumer spending have an especially clear impact, is that conditions have begun to look up as consumer interest in making purchases has gradually improved. In the South American market, too, sales of POS printers were brisk especially, in Brazil. In China and other Asian markets, which largely escaped any direct impact of the financial crisis, Star Micronics' businesses remained healthy overall. In summary, in fiscal 2011 in addition to mounting recovery in Europe and the U.S., our operations ultimately benefited from growth in Asia and South America.

LOOKING BACK ON TWO YEARS AS PRESIDENT

I became President and CEO of Star Micronics in May of 2009. Fallout from the financial crisis that had struck earlier in the fall of 2008 sparked global economic weakness that had caused our operating environment to rapidly deteriorate. The end result for fiscal 2010 was the toughest financial performance we have reported in Star Micronics' history. In this unforgiving climate, I decided to advance two key strategies.

The first strategy was not to force any sales. While lowering product sales prices more than necessary in an unwelcoming market may provide a temporary boost, my position was that this would have little long-term merit since it would adversely impact market prices later on. To this end, our chosen strategy, given the pullback in capital investment among manufacturers, was not to force sales by adjusting sales prices for our products.

The other strategy was extensive inventory reduction. Our sales companies and plants in Japan and across the globe ultimately reduced about ¥6.0 billion of the ¥15.0 billion in inventory we possessed on a consolidated basis over the course of one year. We also took thorough steps to keep our corporate structure strong, which included workforce downsizing at our production plant in Dalian, China. So while we did not post a profit in fiscal 2010, these efforts allowed Star Micronics to continue to pay dividends without marring our balance sheet.

These strategies from the last business term paid off in our being able to report dramatically improved business results and profitability for the fiscal year under review.

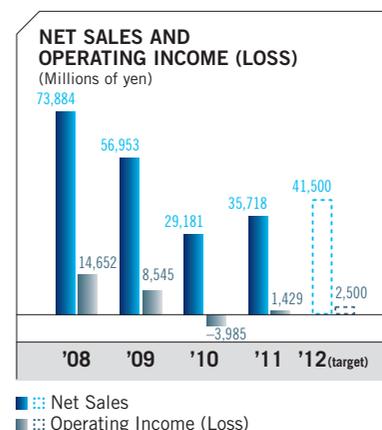
FISCAL 2012 OUTLOOK AND FUTURE INITIATIVES

Gradual signs of economic recovery are expected to emerge worldwide in fiscal 2012, the year ending February 29, 2012. Two major points in the global economy going forward will be the upcoming 2012 presidential elections in the U.S., France, Russia and South Korea, as well as a change in national leadership in China. Ahead of elections, the current administrations in each country are likely to push forward with economic policies. Consequently, we will probably see the economies of first the U.S., and then Europe, make a solid and steady rebound from this fall.

The Great East Japan Earthquake that struck in March 2011 caused fragmentation in component supply chains, triggering freezes in corporate activities, particularly among manufacturers. Despite lingering problems, namely an accident at a nuclear power plant linked to the earthquake and subsequent nationwide power shortages, supply chain restoration has moved forward and corporate activities have finally begun returning to normal.

The Star Micronics Group has no plants or offices in the area most affected by the devastating earthquake, and did not suffer any direct injury to personnel or damage to structures, production facilities and other equipment. Nevertheless, in the Components business, sales of products for the automobile market, where growth was anticipated, faltered due to production cutbacks by automakers in the wake of the disaster. In the Precision Products Segment, sales of wristwatch components were largely unaffected despite damage to production sites among some wristwatch makers due to the earthquake. This reflected a faster-than-expected recovery in production among those makers impacted, which subsequently minimized any adverse effects on sales.

For the fiscal year ending February 29, 2012, due to continued improvement in the order environment in the Machine Tools Segment, Star Micronics is projecting net sales of ¥41,500 million, up 16.2% year on year. Tracking sales growth, operating income is projected to rise 74.9% year on year, to ¥2,500 million, with net income soaring 583.2% to ¥1,100 million.



MEDIUM-TERM OUTLOOK

My approach over the next two to three years calls for channeling our efforts into the ASEAN (Association of Southeast Asian Nations) region. The ASEAN member countries of Indonesia, Thailand, Malaysia, the Philippines and Vietnam have a collective population of around 500 million people, roughly comparable with that of EU member states. In terms of current economic scale, these two markets are, of course, vastly different, but the ASEAN market harbors massive growth potential. While double-digit economic growth is unlikely in ASEAN over the next five to ten years, annual growth is widely expected to be 5% or more. Furthermore, the region offers less onerous time-zone differences compared to Europe and the United States, offering an environment that should facilitate business.

Our most promising businesses for this region are POS printers and machine tools. Continued economic development will spur more retail stores, which should fuel growth in demand for POS printers. Moreover, the Star Micronics Group currently has only a modest market share in the region, suggesting ample room for growth going forward. Additionally, as the region becomes a production base for automobiles and a host of other manufacturing sectors, this can be expected to drive needs around machine tools, for which the desire to undertake capital investment is high.

OUTLOOK BY BUSINESS SEGMENT

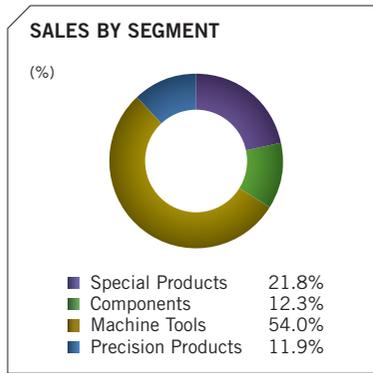
Special Products: In POS printers, product functionality and quality are maturing, making it difficult to achieve distinction based on printing speed and operability alone. We thus will need to look beyond functionality and quality to also focus on after-sales services. As one specific measure, we have established a sales company in Bangkok, Thailand, as a base in Southeast Asia, where our presence to date has been somewhat subdued. We will now proceed to develop a service framework covering the entire region.

Additionally, we will continue to develop high-added-value products with distinctive functionality. These will include mobile printers for use with on-demand settlement systems, which have started to be sold in the United States, as well as eco-printers that consume less energy and eliminate wasted paper.

Components: With the emphasis on profitability, we are shifting the pivotal focus of this segment from mobile phones to the automobile sector, among other actions. With that said, given ever more severe market conditions resulting from a number of recent developments, such as wage inflation in the Chinese industrial sector and shortages of rare earth materials, replacing it with the automobile sector alone is not feasible. Our intention going forward is to review our operations in this segment and determine the future direction of the business as quickly as possible.

Machine Tools: Our task looking ahead is to expand our sales share in the CNC automatic lathe market by strengthening our lineup of fixed-headstock automatic lathes and turning centers released in fiscal 2011 in a bid to cultivate new markets. In March 2011, we launched a new strategic machine under the brand name GEILI, featuring selected functions and superior cost performance, with the goal of expanding our CNC automatic lathe share in the Chinese market. We intend to move forward quickly with wider development of the Chinese market backed by this entry-level CNC automatic lathe in China.

In order to bolster production capacity, Star Micronics plans to establish a new machine tools production subsidiary and production plant in Nakhon Ratchasima Province, Thailand in August 2011. This new plant is scheduled to start operation in October 2012. In the fiscal year ending February 28, 2018, the establishment of this new production base, what will be one of three bases in a production network spanning Japan, China and Thailand, is set to give Star Micronics a total monthly production output of 500 units and an annual output of 6,000 units.



TOPICS

TSP100ECO: THE INDUSTRY'S FIRST ECO-FRIENDLY PRINTER

This product started with a single goal: Reduce standby power consumption to zero.

Responding to rising awareness of environmental issues worldwide, we beat the competition to market with the industry's first environmentally-friendly printer, the *TSP100ECO*. This new addition to our POS printer lineup features not only low power consumption and paper-saving functionality, but slashes customers' running costs as well. Corporate customers around the world, and particularly in Europe and the United States, where environmental issues are especially important, have expressed strong interest, and we expect the *TSP100ECO* to steadily capture demand for "green" printers.

ENTERING NEW MARKETS TO EXPAND THE BUSINESS DOMAIN

We have launched two important new products: the *SF-25* turning center and the *SG-42* fixed-headstock CNC automatic lathe. These products will complement our lineup of Swiss-type automatic lathes and serve customer needs we haven't been able to meet in the past.

The *SF-25* turning center leverages our superiority in small precision parts machining. The tool is ideal for machining complex parts for medical equipment, aircraft, automobiles and other high-precision equipment. Compared with competitor products designed for larger parts, the *SF-25* fills the niche perfectly for high precision machining of small precision parts.

The *SG-42* joins high productivity with high functionality and high precision. The lathe will meet demand for machining larger parts for automobiles, construction materials and household electronic appliances.

We will continue to bolster our product lineup in the future to expand our market share as a leading CNC automatic lathe manufacturer.



Precision Products: The important issue in the Precision Products Segment is to expand our sales overseas. In overseas markets, our subsidiaries in Ayutthaya (Thailand) and Shanghai (China) are performing strongly. As we have been doing, we will continue taking steps to enhance quality and productivity, and will also need to reinforce our local sales capabilities going forward. Over the medium to long term, Star Micronics will put greater emphasis on its three bases in Ayutthaya, Shanghai, and Dalian.

TO OUR SHAREHOLDERS AND OTHER INVESTORS

The fundamental management policy of Star Micronics is not to merely pursue expansion of business size, but to develop businesses in growth industries and in global niche markets. Furthermore, it is extremely important that we steadily implement strategies that realistically play to our strengths after properly evaluating our management resources.

Regarding the distribution of profits, we emphasize the return of profits to shareholders, and are unwavering in our belief that being a listed stock entails compensating them with dividend payments. Therefore, we are determined to achieve our target of a consolidated dividend payout ratio of at least 40% while taking into account our consolidated dividend on equity (DOE). To implement a more flexible capital policy that is responsive both to efforts to boost capital efficiency and to a changing operating environment, we acquired 1 million shares of treasury stock in September 2010. This acquisition raised our treasury stock level to roughly 8 million shares, 3 million of which were cancelled in April 2011. While ideally the remaining 5 million would be used for M&A activities, failing that, we are considering their cancellation over the next three years.

Where M&A is concerned, we are still hoping to identify potential partners that fit our three fundamental criteria of possessing sound management, an outstanding business model and high growth.

Based on challenging scenarios that include an uncertain operating environment due to the impact of the Great East Japan Earthquake and Tsunami, unfavorable exchange rates and global economic trends, we plan to carefully monitor events in the fiscal year ending February 2012. When it comes to the management of Star Micronics, my philosophy is to never look the other way when it comes to risk. So no matter how small the risk, rest assured that we will never ignore it.

With our sights set on further recovery in business performance, we are staunchly committed to achieving the best outcomes possible. I ask for the continued support and understanding of our shareholders and other investors as we work to meet your expectations.

July 2011



HAJIME SATO
President and CEO

