

REVIEW OF OPERATIONS

SPECIAL PRODUCTS

Sales increased on steady demand in China, South America and other emerging markets, along with a rebound in North American markets.



TSP100 POS Printer

The TSP100 offers dependable, high-speed printing even of complex data, thanks to a redesigned method for the control and processing of printed data. A wealth of printer utilities includes 180-degree letter rotation of print data. New to the lineup is the TSP100ECO, which boasts power- and paper-saving features. With an expanded lineup, the TSP100 has become the talk of the industry, widely used in department stores, supermarkets, restaurants and other locations throughout the world.

SHIPMENTS OF POS PRINTERS

(Thousands of units)

	2010	2011	Change (%)
Europe	124	118	(4.8)
America	169	192	13.6
Asia	77	139	80.5
Japan and elsewhere	20	46	130.0
Total	390	495	26.9

BUSINESS ENVIRONMENT AND RESULTS IN FISCAL 2011

Point-of-sale (POS) printers are the main products in the Special Products Segment.

In fiscal 2011, the printer market was characterized by a gradual recovery as the economic situation began to rebound from the global downturn.

Analyzing results by region, China and the United States were the two markets with marked recovery in demand. Sales in China were particularly robust, as government stimulus measures spurred demand for POS printers and printers used in highway management. In the United States, signs of improved consumer confidence supported a mild economic recovery, though continued high unemployment and other issues have left doubts over the prospects for a full-fledged recovery in personal consumption. In South America, the economic downturn had a limited effect on the market, and demand remained steady.

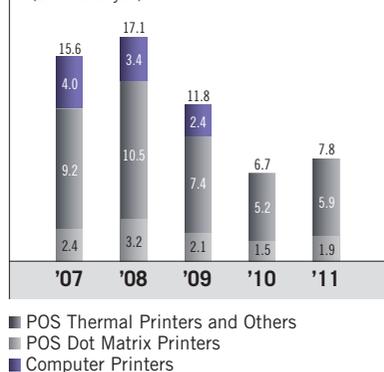
In Europe, meanwhile, though there were differences among nations in the pace of recovery, demand for printers was sluggish as the overall market environment remained severe.

In terms of new products, the Company launched an eco-friendly thermal printer, a mobile printer for on-demand settlement systems, among others. In addition, a sales office was established in Thailand in September 2010 to serve the expected growth in demand for printers in Southeast Asia.

As a result of the above factors, segment sales and operating income rose sharply in the fiscal year. Sales grew 15.5% compared to the previous year, or ¥1,042 million, to ¥7,782 million (US\$94,902 thousand). Operating income soared 165.6%, or ¥462 million, to ¥741 million (US\$9,037 thousand).

SPECIAL PRODUCTS SEGMENT SALES

(Billions of yen)



* The Company withdrew from computer printers in the fiscal year ended February 2009.

OUTLOOK FOR FISCAL 2012

A gentle recovery is forecast in European markets, as well as strong performance in North and South America, and China. Star Micronics will also continue expansion in Southeast Asia, where further growth is anticipated, based on a new sales base in Thailand. Similarly, plans are afoot to introduce new products targeting emerging economies.

For business results, we are projecting segment sales of ¥8,250 million, up 6.0% from the previous fiscal year, and operating income of ¥690 million, a decrease of 6.9% year on year.

COMPONENTS

In response to severe market conditions, we shifted the focus of our components business from mobile phones to the automotive sector. We continue to reform our sales structure with an emphasis on improving profitability.

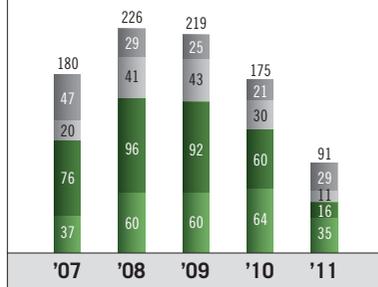


RBB-04 BA Receiver

The RBB-04 is a balanced armature (BA) receiver that is more sensitive than conventional dynamic receivers, resulting in more natural sound reproduction. As a result of this feature, the RBB-04 can be found in applications ranging from hearing aids to premium quality headphones. Star Micronics deals not only in stand-alone BA receivers, but also supplies in-ear headphones that incorporate this technology on an OEM basis.

COMPONENTS SEGMENT SALES BY VOLUME

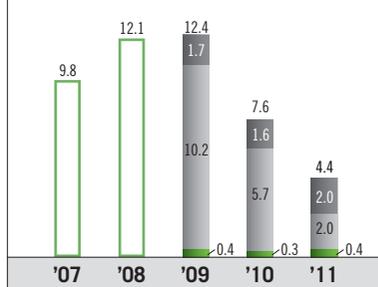
(Millions of units)



- Buzzers
- Speakers
- Receivers
- Microphones & Others

COMPONENTS SEGMENT SALES

(Billions of yen)



- Products for Automobiles
- Mobile Devices
- Home Electric Appliances, Medical and Others
- Figures by product category are not disclosed for the period up to and including fiscal 2008 due to changes in the range of products handled.

BUSINESS ENVIRONMENT AND RESULTS IN FISCAL 2011

The Components Segment includes a wide range of micro audio components, including microphones, receivers, speakers and electronic buzzers. Star Micronics has responded to the diversification of the customer base by revamping its product strategy and pursuing opportunities in new markets. New component applications include automobile ETC terminals and a wide range of digital equipment.

In fiscal 2011, the Company shifted the focus of its business from mobile phones, a challenging market with low profit margins, to automobile components. Though the automobile market is smaller than the mobile phone market, customers have extremely strict quality requirements. By supplying high-quality products to meet these needs, the Company plans to avoid price competition with rivals and secure profitability.

In the automobile market, though domestic car sales slowed in the second half of the fiscal year, the market remained in a general recovery trend, and the Company enjoyed firm sales, mainly for components used in ETC terminals and other products.

The market environment for mobile phone components remained very severe due to intensified price competition, mainly with manufacturers in China.

The Company strove to secure profitability by reducing the number of employees at overseas factories and through other structural reforms.

Looking at sales volume by product type, sales of microphones and others declined sharply, by 45.3% compared to the previous year, to about 35 million units. Receiver sales declined 73.3% year on year to 16 million units, while speaker sales declined 63.3% to 11 million units. Electronic buzzer sales increased 38.1% year on year to 29 million units.

As a result of the above factors, sales in the Component Segment declined 42.4%, or ¥3,245 million, to ¥4,401 million (US\$53,671 thousand). As a result of this sales decline, the Company posted an operating loss of ¥558 million (US\$6,805 thousand).

OUTLOOK FOR FISCAL 2012

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.

Turning to the outlook for fiscal 2012, we anticipate a drop in net sales of 34.6% year on year, to ¥2,880 million, and an operating loss of ¥1,050 million, compared to the operating loss of ¥558 million recorded in fiscal 2011.

MACHINE TOOLS



We posted greatly improved results by taking advantage of rebounding demand as market conditions recovered. We are striving to expand market share by entering new markets and establishing new brands.

ECAS-20T Swiss-Type Automatic Lathe

Developed as a sophisticated machine tool for complex machining, the ECAS-20T has been a market favorite since its release in 2008. The ECAS-20T is equipped with a proprietary control format called the Star Motion Control System, which helps reduce idle machine time, as well as a three-turret configuration for higher productivity. The ECAS-20T has also been recognized for its superior design, receiving the Japan Machine Tool Builders' Association prize for outstanding industrial machinery design.

MACHINE TOOLS SEGMENT SALES VOLUME BY GEOGRAPHICAL REGION
(Units)

	2010	2011	Change (%)
Japan	159	295	85.5
America	145	258	77.9
Europe	212	429	102.4
Asia	364	514	41.2
Total	880	1,496	70.0

BUSINESS ENVIRONMENT AND RESULTS IN FISCAL 2011

Star Micronics' Swiss-Type CNC automatic lathes have garnered international acclaim and enjoy high market shares globally. Key products are the SV series, ideal for the high-precision, complex machining required in the manufacture of medical and other components; the top-of-the-range ECAS series, which incorporates the Star Motion Control System; and the SB series of machine tools entirely made in China that offer superior cost performance.

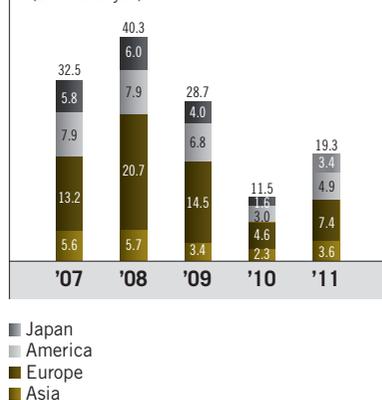
In fiscal 2011, the environment improved considerably, with recovery seen in Europe and steady demand in the United States. In Europe, export industries such as automobiles and precision machinery rebounded on the back of the weaker euro. Orders from Germany, Switzerland, the U.K. and other countries rebounded as manufacturers renewed capital investments after restraining spending the past several years due to the economic downturn. Orders also rose in the U.S., thanks mainly to demand from medical equipment manufacturers.

Orders in Asia were brisk. In addition to higher orders from China, business in Southeast Asia increased on demand from automobile and motorcycle manufacturers. In Japan, automobile manufacturers remained cautious on domestic capital investments, but continued to aggressively expand spending on overseas plants.

During the year, major initiatives included the launch of the SF-25 turning center and the SG-42 CNC automatic lathe with fixed-headstock, along with the expansion of product sales into new markets.

As a result of the above factors, fiscal 2011 results improved greatly over the previous year. Sales volume jumped 70.0% to 1,496 units. By value, sales soared 68.2% to ¥19,287 million (US\$235,207 thousand), while operating income totaled ¥2,175 million (US\$26,525 thousand).

MACHINE TOOLS SEGMENT SALES BY GEOGRAPHICAL REGION
(Billions of yen)



OUTLOOK FOR FISCAL 2012

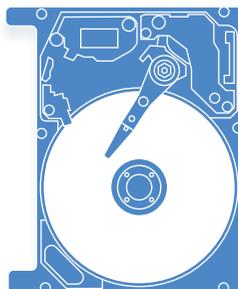
Orders will likely be strong, particularly in Europe and the United States, with major growth in sales expected in European and Asian markets. Star Micronics will also aim for sales expansion in existing products, in addition to new turning centers, fixed-headstock CNC automatic lathes and strategic products for the Chinese market.

In terms of performance, we are projecting sales of ¥26,170 million, up 35.7% from the previous fiscal year, and operating income of ¥4,070 million, up 87.1% for the same period.

In order to augment production capacity, Star Micronics has opted to establish a new machine tools production subsidiary and production plant in Nakhon Ratchasima Province, Thailand. The tentative date for establishment of the subsidiary is August 2011, with the production plant scheduled to begin operating in October 2012. In the fiscal year ending February 28, 2018, the establishment of the 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.

PRECISION PRODUCTS

Sales of both wristwatch components and non-wristwatch components improved in tandem with the recovering global economy.

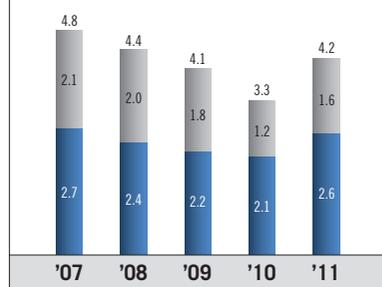


Components for Compact Hard Disk Drives (HDDs)

Demand for HDDs continues to rise, and Star Micronics supplies key components for HDDs installed in notebook PCs and other devices. These components are chiefly produced by our production subsidiary Star Micronics Precision (Thailand) Co., Ltd. based in Ayutthaya, Thailand. Covering the full range of operations from machining of HDD components to surfacing and precision wash treatment, Star Micronics Precision (Thailand) meets the expectations of local HDD manufacturers by providing them with a stable supply of high-quality products.

PRECISION PRODUCTS SEGMENT SALES

(Billions of yen)



■ Wristwatch Components
■ Non-wristwatch Components

BUSINESS ENVIRONMENT AND RESULTS IN FISCAL 2011

The products in this segment are divided into two main areas: wristwatch components, a business the Company has been involved in since it was founded, and non-wristwatch precision components (also referred to as non-wristwatch components).

The market for wristwatch components has little prospect for high growth over the long term, and therefore the Company's strategy is to increase earnings by focusing on markets for non-wristwatch components. Star Micronics is applying its precision processing technology to fields where precision components are difficult to manufacture: hard disk drive (HDD) components, medical components such as dental drills, implant parts and bone screws for bone-setting, automotive components, and optical fiber connector parts.

Wristwatch component sales increased 29.3% year on year to ¥1,615 million (US\$19,695 thousand). Amid the global economic recovery, the Company benefitted from an increase in the market shares of high-quality Japanese wristwatch manufacturers.

In the non-wristwatch components business, sales to car audio equipment manufacturers in China and other markets grew in tandem with a recovery in automobile demand. Sales of HDD components also increased despite production adjustments by HDD manufacturers in the second half of the year.

Overall, non-wristwatch sales jumped 26.5% year on year to ¥2,633 million (US\$32,110 thousand), and accounted for 62.0% of total segment sales.

As a result of the above factors, total segment sales increased 27.5%, or ¥917 million, to ¥4,248 million (US\$51,805 thousand). As a result of the sales increase, the Company posted operating income of ¥724 million (US\$8,829 thousand).

OUTLOOK FOR FISCAL 2012

A slight year-on-year increase in wristwatch component sales is anticipated based on brisk performance among Japanese wristwatch manufacturers. In non-wristwatch components, growth is likely to be sluggish in sales of automobile-related components, among others products.

Consequently, we are projecting segment sales of ¥4,200 million, down 1.1% year on year, and operating income of ¥670 million, down 7.5%.