

## To Our Shareholders



**HAJIME SATO**  
*President and CEO*

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# Decisions Made With an Eye to the Future

We have stayed ahead of severe and rapidly changing business conditions, maneuvering tactically to overcome various challenges to the Star Micronics Group's performance. As a result, the Star Micronics Group made steady progress in achieving improved business results.

Going forward, we will live up to the expectations of our shareholders by firmly leveraging our solid business base and prioritizing profitability in the global niche markets we serve.

**Sales and profits rose, driven by strong business performance mainly in the Machine Tools Segment.**

**Looking at the markets by region, I anticipate a recovery in the U.S. economy along with stable growth in Asia, even though I expect economic conditions in Europe to remain unstable.**

## **Review of Business Performance**

In fiscal 2012, the year ended February 29, 2012, the U.S. economic recovery slowed and the European economies overall also lost momentum amid growing concerns for the fiscal and financial soundness of the euro-zone countries. Meanwhile, Asia generally maintained strong rates of economic growth, despite the effects of tighter monetary policies in China. In Japan, there were signs the economy was recovering from a sustained but transitional period of severity that was brought on by the Great East Japan Earthquake. The yen's foreign exchange rate, meanwhile, remained strong against major currencies.

Amid this environment, the Star Micronics Group's business performance was driven by strong orders in the Machine Tools Segment, primarily from the Group's main markets in Europe and the U.S. By contrast, the Components Segment experienced a substantial decline in sales as a consequence of withdrawing from unprofitable businesses. Sales firmed, however, for both the Special Products and Precision Products segments.

As a result, the Star Micronics Group reported a 16.6% increase in consolidated net sales to ¥41,654 million in fiscal 2012. Profits improved significantly, with the Group reporting a 176.6% upswing in operating income to ¥3,953 million and a surge in net income to ¥2,427 million, from ¥161 million in fiscal 2011.

To compensate our shareholders, Star Micronics has decided to pay a full-year dividend of ¥26 per share.

## **Market Outlook**

Global economic conditions leave little room for optimism in fiscal 2013, the year ending February 28, 2013. But if we divide the global economy into its U.S., European, Asian and Japanese components, I see the U.S. offering the most prospects for economic recovery. Among my reasons for this is that I expect there will be policy attempts to stimulate the U.S. economy in advance of the presidential election this fall, in addition to the fact that macroeconomic indicators have begun to improve recently. Should the U.S. economy indeed begin to recover, I would expect personal consumption to spur the U.S. economy further, given the historical propensity that U.S. consumers have for high levels of spending.

The second prospect in line is Asia. As a result of a free trade agreement (FTA) that the Association of Southeast Asian Nations (ASEAN) concluded with India, the two markets combined now account for over 1.7 billion people. Add China to this mix, and the markets in Asia comprise 40% of the global population. The sheer size of this population represents both a huge market for us and the likelihood of economic growth. Consequently, I expect the ASEAN economies to expand at an average rate of 5–6% a year. Apart from that, China recently announced that it had lowered its target for economic growth in 2012 to 7.5%. Although, I should perhaps remind you that this is a level that remains inconceivably high by most U.S. and European standards.

By contrast, I expect economic conditions in Europe to remain unstable for the foreseeable future, given the fiscal and financial problems that the nations participating in the European currency are facing. I am therefore refraining from holding any expectations for Europe in 2012, as I don't see the eurozone's problems being resolved in the near future.

**Markets in Europe and the U.S. will remain vital to Star Micronics, even as we begin promoting business development centered on Asia, where growth is expected.**



Japan, on the other hand, is aging rapidly with fewer children, and so is saddled with the problem of a population about to decline. Hence, there is little hope of the Japanese market growing substantially.

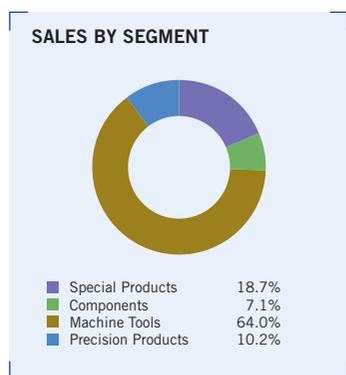
### Fiscal 2013 Outlook and Medium-Term Outlook

The European and North American markets will remain important to Star Micronics. However, the Company will emphasize the enhancement of its business development overseas in Asia, where growth can be expected. Asia represents a promising market with plenty of growth potential available still for virtually all of the Group's business segments. Having established a sales subsidiary in Bangkok, Thailand, our Special Products Segment now has a base for bolstering sales and substantially improving its market coverage of Southeast Asia. The Machine Tools Segment, moreover, established a new manufacturing subsidiary in Nakhon Ratchasima, Thailand, in February 2012, and preparations are underway to commence operations. Meanwhile, a production plant of the Precision Products Segment is recovering from the damage it incurred amid the flooding in Thailand last fall. We plan to completely reopen this plant as soon as possible and begin taking in local demand.

Our business environment in the U.S. will probably be immune to major swings in the economy, given that our sales of machine tools there are 60% to the medical equipment industry. U.S. companies also generate firm demand for our machine tools in South America where they are in the process of expanding in Brazil, Argentina and elsewhere. What's more, South American demand is also strong for the POS printers that our Special Products Segment manufactures.

Our levels of orders for machine tools from Europe were very strong in the year ended February 29, 2012. This was the upshot of the improved automobile sector in Germany and other European exports that grew from a weakening of the euro. With exports bolstering their earnings, many European companies then decided to invest in plant and equipment. That demand appears to have waned recently, however, given the new economic realities. I therefore believe that the outlook comprises much tougher business conditions in Europe.

Consequently, for the year ending February 28, 2013, Star Micronics is projecting ¥39,300 million in net sales, ¥2,800 million in operating income and ¥3,200 million in net income.



### Initiatives by Business Segment

**Special Products:** The main target in this segment is to raise market share primarily in Asia, while staying on top of the business trends in South America. In particular, we will focus our effort most of all on cultivating our business in the Southeast Asian market. In the past, Special Products had relied primarily on agents for sales in this region. The establishment of a sales subsidiary in Bangkok, Thailand, however, has changed all that. The segment now has an arena for interacting directly with customers that will enable us to proactively launch our own sales activities in the region.



The Star Micronics Group also has the software capability to develop distinctive functions and bring special products that are commercially competitive to life. Special Products aims to leverage this capability, as well as a line of mobile printers for on-demand settlement systems, to expand sales.

**Components:** Our business focus in components had shifted from mobile phones to automobiles in the pursuit of profitability. However, having decided that a major upturn in earnings for this segment is unlikely, we intend to sell and close our Components Segment in the year ending February 28, 2013.

However, we plan to continue researching the micro audio technologies we have been nurturing, with the intention of commercializing them as products in the future.

**Machine Tools:** To build a solid earnings base in machine tools, we will cultivate the growing markets in China and other parts of Asia, as well as heighten our presence in the primary European and U.S. markets. Our task looking ahead is to expand our market share of CNC automatic lathes by increasing sales and further strengthening our lineup of turning centers, and also of our fixed headstock automatic lathes that we launched in the year ended February 28, 2011.

On the manufacturing front, we are preparing to ramp up production with the new factory we have established in Thailand. To that end, we will work to optimize our machine tool manufacturing framework, consisting now of our three production bases in Japan, China and Thailand.

**Precision Products:** Few competitors operate on a scale comparable to the Star Micronics Group as regards machine processing precision products, or indeed are capable of integrating production through the plating and heat treatment stage, for that matter. These advantages will serve us well in responding to a broad range of market needs, thereby steadily raising the segment's business performance. The main target for this segment is sales expansion overseas. The Precision Products Segment has a medium-term vision of raising annual sales from each of three overseas bases in Dalian and Shanghai (China), and Ayutthaya (Thailand) to ¥1,000 million, thereby doubling its current annual sales overseas to ¥3,000 million in total.

**We have introduced an Executive Officer System to achieve efficient management.**

## **Corporate Governance**

At Star Micronics, our basic approach to corporate governance is based on fulfilling our social responsibilities as a company by working to increase corporate value in a sustained manner through transparent and efficient management, and appropriately distributing the resulting profits to shareholders and other stakeholders.

What's more, in order to respond rapidly and flexibly to changes in the business environment, Star Micronics introduced an Executive Officer System on March 1, 2012 to speed up management decision-making and increase the efficiency of business execution by management. To do this, the system separates the management decision-making and supervisory functions from the business execution function.

Star Micronics has both increased its dividend paid and executed the acquisition and retirement of treasury stock. Looking ahead, we are on the lookout to identify good M&A opportunities.



## To Our Shareholders and Investors

The standing management policy of Star Micronics is not to merely pursue expansion of business size, but to promote growth strategies with an emphasis on profitability that are proportionate to our capabilities in the global niche markets we serve. Furthermore, we aim to be an attractive company in the eyes of our shareholders and other investors, particularly for those who are seeking long-term shareholdings.

We base our decisions regarding the distribution of profits on a target consolidated dividend payout ratio of at least 40% while taking into account our consolidated dividend on equity (DOE). Consequently, we decided to raise our annual dividend by ¥4 to ¥26 per share in the year ended February 29, 2012. In the medium term, our policy is to aim for a DOE in excess of 4.5% by the year ending February 28, 2015. We emphasize the return of profits to shareholders and are working to achieve a stable and consistent increase in dividends.

Moreover, to implement a more flexible capital policy that is responsive both to efforts to boost capital efficiency and to a changing operating environment, we purchased 1 million shares of treasury stock in October 2011, followed by the cancellation of 4 million shares of treasury stock. As a result, the remainder in our balance of treasury stock was roughly 5 million shares. We plan to continue examining M&A transactions involving the exchange of equity as a method for utilizing this treasury stock.

In conclusion, Star Micronics is staunchly committed to achieving the best outcomes possible amid a business environment that remains lacking in transparency. I ask for the continued support and understanding of our shareholders and other investors as we work to meet their expectations.

May 2012

**Hajime Sato**  
President and CEO

