

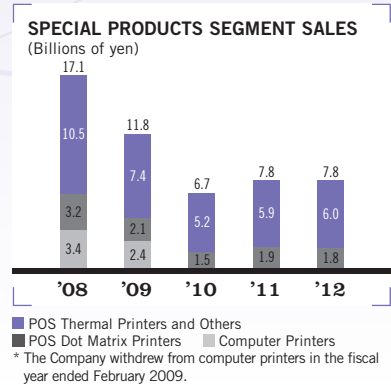
# Review of Operations

## Special Products

Segment profits declined on flat sales as the Chinese market began to slow and foreign exchange rates had an effect, despite firm demand from South America and the other emerging markets.



TSP100ECO POS Printer



## Business Environment and Results in Fiscal 2012

Point-of-sale (POS) printers found in places such as department stores, supermarkets and restaurants are the main products in the Special Products Segment. The segment has built its business on lines of products that steadfastly reflect the needs of customers and society, such as the eco-friendly TSP100ECO POS printer that has features for consuming less paper and energy.

To strengthen its competitiveness, the segment embraces a two-pronged approach of providing the leading industrial markets with high-value-added products on the cutting edge of IT, while supplying the emerging markets with products that are primarily cost competitive. To this end, the segment has strengthened its technological capabilities centered on software engineering, honed its pricing competitiveness

and built an optimal global sales and marketing organization to boost its market share even further.

However, the segment was enveloped in a severely challenging business environment during fiscal 2012. The segment faced the emergence of even more competing manufacturers based in the emerging markets and a further appreciation of the yen, in addition to a global economy that was snagged by setbacks such as the fiscal crisis in Europe.

By region, market environments in the Americas were comparatively stable. POS printer sales in the Americas continued to increase on recovering demand in North America and remarkably strong conditions in the South American market. In Europe, demand for our POS printers recovered just enough for sales to remain flat, despite the fiscal crisis among countries in Europe and the political turmoil in the Middle East.

## Feature Column



## Market Potential of Mobile Printers Capable of Roaming Settlements and Door-to-door Ticketing of Parcel Acceptances and Deliveries

Cash registers that are fixed in place present a range of problems, from long cash register lines at supermarkets and home appliance mass retailers, to the security risk of entrusting credit cards to waiters and waitresses in restaurants. Mobile printers make cash registers portable, and enable sales staff to settle credit card payments and issue receipts with customers on the sales floor and at the tableside.

Furthermore, Star Micronics printers come standardly equipped with a magnetic card reader and can be used in combination with most popular smartphone models to configure a low-cost system for settling credit card payments and administering the incentive points to membership cards.

Star Micronics launched such a printer terminal for sale in the U.S. in 2010, and has since received many business inquiries

regarding their potential as an on-demand settlement system. In Japan, our SM-S220 mobile printer was officially adopted by NTT DATA Corporation as the printer for a new cloud service for smartphones and tablets that started trials in April 2012.

We plan to steadily develop mobile printers as a business in light of the dynamic range of their market potential.



SM-S220

By contrast, sales in China fell after the government began to tighten monetary policy toward the latter half of the year ended February 2012, and this dampened the demand primarily among large-order customers for dot matrix printers.

As a result, segment sales increased 0.3% to ¥7,807 million (US\$96,383 thousand) in contrast to a 21.6% drop in operating income to ¥581 million (US\$7,173 thousand) in the fiscal year under review.

### Outlook for Fiscal 2013

The segment will continue to supply a product line of POS printers tailored to market needs and build a sales and marketing organization capable of responding to customers with flexibility and attention to detail. We expect demand to continue expanding in the emerging markets, primarily in Latin America, Russia and the Middle East, and will work to expand our sales of cost competitive, strategic POS printer models in these regions. We will also fully enlist our newly established

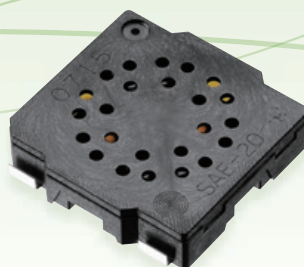
SHIPMENTS OF POS PRINTERS (Thousands of units)			
	2011	2012	Change (%)
Europe	118	132	11.9
America	192	242	26.0
Asia	139	135	(2.9)
Japan and elsewhere	46	32	(30.4)
Total	495	541	9.3

operation in Russia and other business bases around the world to capture global market needs, while striving simultaneously through our sales base in Thailand to cultivate the market in Southeast Asia.

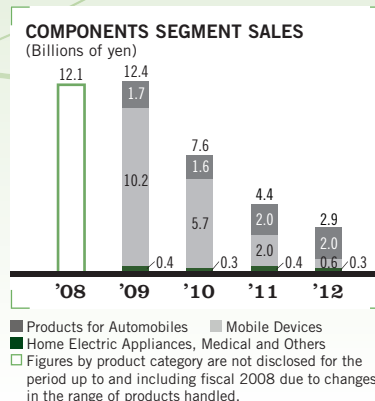
For business results, we are projecting segment sales of ¥8,850 million, up 13.4% from the previous fiscal year, and operating income of ¥830 million, an increase of 42.9% year on year.

## Components

We expect Components sales to diminish substantially as we reduce the number of low-margin products we handle. We also plan to close the segment in the year ending February 2013.



Speaker SAE-20A



### Business Environment and Results in Fiscal 2012

The Components Segment includes a wide range of micro audio components, including microphones, receivers, speakers and electronic buzzers. In an effort to cultivate new markets, our business focus in components had shifted from mobile phones to automotive electronics and a wide range of other digital equipment. However, since we do not expect earnings to recover in the Components business, we have plans instead to close this segment and sell it.

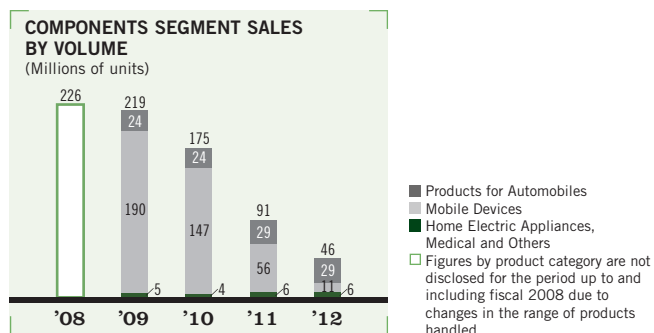
In fiscal 2012, sales of components to the automobile market were on a par with the same period a year earlier, owing to automobile production recovering after stagnating temporarily in the wake of the Great East Japan Earthquake. By contrast, we saw a sizable decline in sales of components for mobile phones and other mobile devices, once we decided to reduce the low-margin items in our product line.

As a result, sales in the Components Segment declined 33.1% to ¥2,944 million (US\$36,346 thousand). With this decline in sales, the segment posted an operating loss of ¥955 million (US\$11,790 thousand).

### Outlook for Fiscal 2013

We will focus our efforts in the year ending February 2013 on selling the Components Segment and closing it down. Assuming segment sales decline 10.0% to ¥2,650 million, our projections call for a containment of operating loss at ¥270 million.

On the other hand, we plan to retain the Segment's R&D department and continue researching the micro audio technologies we have been nurturing for the past 40 years, as we seek new business opportunities in the future.

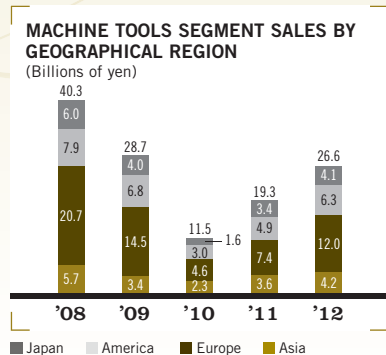


## Machine Tools

The Machine Tools Segment's sales and earnings increased on the back of firm market conditions. We are striving to improve our profitability further by introducing new products and building up our production structure.



ECAS-20T Swiss-Type Automatic Lathe



### Business Environment and Results in Fiscal 2012

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 that offers superior cost performance.

In fiscal 2012, market conditions improved around the world, contributing initially to an increase in orders and sales. However, the financial crisis in Europe began affecting the segment's performance toward the end.

By region, the European market saw increased capital investment among companies in export-related sectors triggered by a weaker euro. Orders were especially strong from the automobile sector in Germany. Together, these factors resulted in significant sales growth in the European market. Sales in the U.S. market increased due to a pickup in capital investment in medical-related sectors and in the automobile sector. Sales grew firmly in the Asian market too, supported by growth in the East Asian market and robust capital investment in the Southeast

Asian market in the automobile and motorcycle-related sectors. In the Japanese market also, sales increased as production recovered principally among automakers.

During the year under review, the Group introduced two new models, the *SB-12II* and *SB-16II*, for enhancing the lineup of the best-selling *SB* series, and the *CSC16*, a CNC automatic lathe developed jointly under the GEILI brand for cultivating the low-end in the Chinese market. In addition, the Group launched the *SW-20* as a new product for targeting a wide range of fields where complex parts need to be machined, such as the automotive and medical equipment industry.

Also, Machine Tools established a new manufacturing base in Nakhon Ratchasima, Thailand, in February 2012. This new site augments our bases in Japan and Dalian, China, with the aim of strengthening manufacturing capacity. The facility is scheduled to commence operations at the beginning of 2013.

As a result, both sales and income in fiscal 2012 improved greatly over the previous year. Sales volume increased a sizeable 32.2% to 1,977 units. By value, sales rose a substantial 38.1% to ¥26,640 million (US\$328,889 thousand), while operating income totaled ¥5,366 million (US\$66,247 thousand).

### Feature Column



## Star Micronics Exhibits at EMO Hannover, One of the World's Largest Trade Fairs for the International Machine Tool Industry

In September 2011, Star Micronics exhibited products including its newly developed *SW-20* Swiss-type automatic lathe and *SF-25* turning center at this major trade fair in Germany.

The new *SW-20* was well received among those in attendance at EMO Hannover for its capacity to significantly reduce processing times. The Star Micronics booth was thronged by customers even amid many competitors who were also there to exhibit their products.



## Outlook for Fiscal 2013

Our machine tool markets have lacked transparency due to the ongoing fiscal crisis in Europe and China's decision to tighten its monetary policy. Consequently, we must carefully guide our Machine Tools segment to remain in step with changes in the market environment.

To this end, we will step up the development of new products and allocate human resources with the aim of building up a track record in Asia and emerging markets. Having brought the new factory in Thailand on line, we will work to establish a supply chain capable of sustaining the segment's growth and earnings expansion by optimizing the segment's production structure around three manufacturing bases in Japan, China and Thailand. In order for sales to grow, we will also launch a series of turning centers we have newly developed for processing small precision components, as well as a series of fixed-head CNC automatic lathes for processing precision components with large diameters.

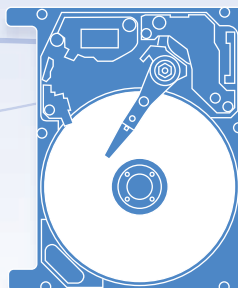
**MACHINE TOOLS SEGMENT SALES VOLUME BY GEOGRAPHICAL REGION**  
(Units)

	2011	2012	Change (%)
Japan	295	374	26.8
America	258	355	37.6
Europe	429	715	66.7
Asia	514	533	3.7
Total	1,496	1,977	32.2

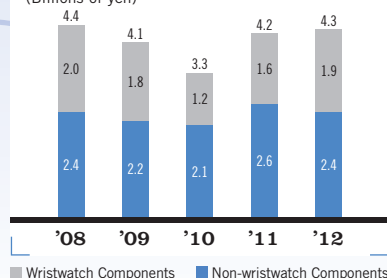
In consideration of a lull in the machine tools market toward the end of the year ended February 2012, we are projecting sales to decline 12.9% to ¥23,200 million and operating income to fall 34.2% to ¥3,530 million for the Machine Tools Segment in the year ending February 2013.

## Precision Products

Sales of wristwatch components increased as sales held firm among Japanese wristwatch makers. By contrast, in the non-wristwatch components business, flood damage in Thailand caused HDD components sales to fall.



**PRECISION PRODUCTS SEGMENT SALES**  
(Billions of yen)



## Business Environment and Results in Fiscal 2012

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).

Wristwatch component sales increased 16.5% year on year to ¥1,881 million (US\$23,222 thousand) as sales held firm among Japanese wristwatch makers.

In contrast, non-wristwatch components saw sales of automobile components decline, primarily due to model changes among target customers and the impact of the Great East Japan Earthquake. Sales of components for small hard disk drives (HDDs) also declined, mainly owing to flood damage at our production site in Thailand. Operations partly resumed at our Ayutthaya production site in March 2012, with restoration work proceeding for a return to full operations by the middle of 2012.

As a result, non-wristwatch components sales fell 9.5% year on year to ¥2,382 million (US\$29,407 thousand), and accounted for 55.9% of total segment sales.

Consequently, total segment sales increased 0.4% to ¥4,263 million (US\$52,629 thousand). As a result of the sales increase, the Precision Products Segment posted operating income of ¥762 million (US\$9,407 thousand).

## Outlook for Fiscal 2013

We think that our target customers in the Precision Products Segment will speed up the development of supply chains consisting of multiple supply sites in response to the Great East Japan Earthquake and the Thai floods. To this end, we will strengthen our production capacity around the world and work to expand sales, while doing all that we can to quickly restore operations at the segment's production subsidiary in Thailand. The trend towards supply chains consisting of multiple sites presents us with an opportunity to initiate sales and marketing activities aimed at increasing the orders our manufacturing bases receive.

Consequently, we are projecting segment sales of ¥4,600 million, up 7.9% year on year, and a 2.4% increase in operating income to ¥780 million.