Momentum and Action

ANNUAL REPORT 2007

For the year ended February 28, 2007

STAR MICRONICS CO., LTD.

PROFILE

Founded in 1950 and based in Shizuoka Prefecture, Star Micronics Co., Ltd. has consistently based its growth on its expertise in precision processing and assembly. The Company's first business was components for wristwatches. This underpinned successful entries into markets for machine tools, printers and electronic buzzers. Today's Star Micronics has four core elements: components, mainly micro audio components; special products, mainly printers; machine tools, mainly CNC automatic lathes; and precision products, mainly wristwatch parts, HDD parts and other components.

A global organization, Star Micronics has manufacturing and sales bases in Europe, North America, Asia and other parts of the world. As of February 2007, there were 6 Japanese and 14 overseas consolidated subsidiaries. The total workforce numbered about 6,800.

Star Micronics constantly aims to be a global-facing business group that targets growth fields and regions, while at the same time seeking to fulfill its corporate social responsibility and increase corporate value.

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FORWARD-LOOKING STATEMENTS

FINANCIAL HIGHLIGHTS

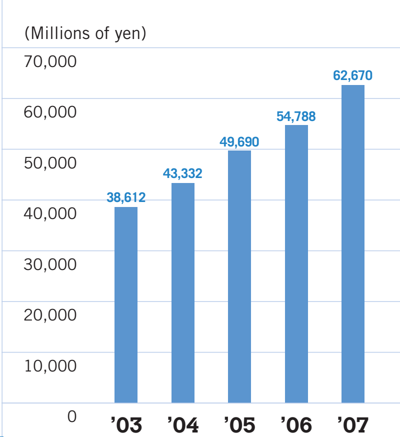
Star Micronics Co., Ltd. and Consolidated Subsidiaries
February 28, 2007 and 2006

	Millions of yen		Change (%)	Thousands of U.S. dollars
	2007	2006	2007/2006	2007
For the year:				
Net sales	¥62,670	¥54,788	14.4%	$531,102
Net income	7,013	5,152	36.1	59,432
Return on sales	11.2%	9.4%		
Capital expenditures	2,908	3,792	–23.3	24,644
Depreciation and amortization	2,708	2,579	5.0	22,949
At year-end:				
Total assets	¥76,195	¥66,826	14.0%	$645,720
Total equity	61,396	54,295	13.1	520,305
Equity ratio	79.9%	81.2%		

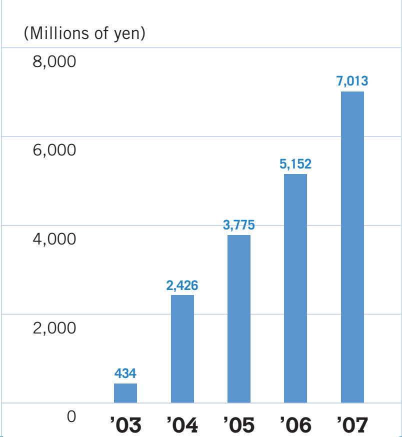
	Yen		Change (%)	U.S. dollars
Per share:				
Basic net income	¥131.09	¥95.60	37.1%	$1.11
Diluted net income	130.73	95.38	37.1	1.11
Cash dividends applicable to the year	32.00	21.00	52.4	0.27
Stock information:				
Common stock issued	54,533,234	54,533,234		
Number of shareholders	5,777	5,246		

Note: The rate of ¥118 to US$1, prevailing on February 28, 2007, has been used for translation into U.S. dollar amounts.

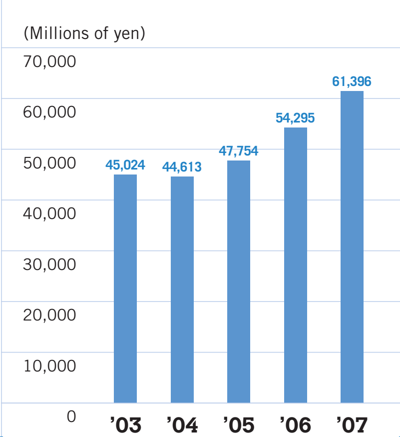
Net Sales



Net Income



Total Equity



TO OUR SHAREHOLDERS

In fiscal 2007, we reported our fourth consecutive year of top- and bottom-line growth and record net income, beating the previous mark set 16 years ago. This performance was driven by continued buoyant orders for machine tools. Building on this performance, we plan to accelerate existing strategies and develop new business fields with an eye to generating further growth. Aiming for 2010, our 60th year in business, we will take on new challenges in an effort to boost profits.

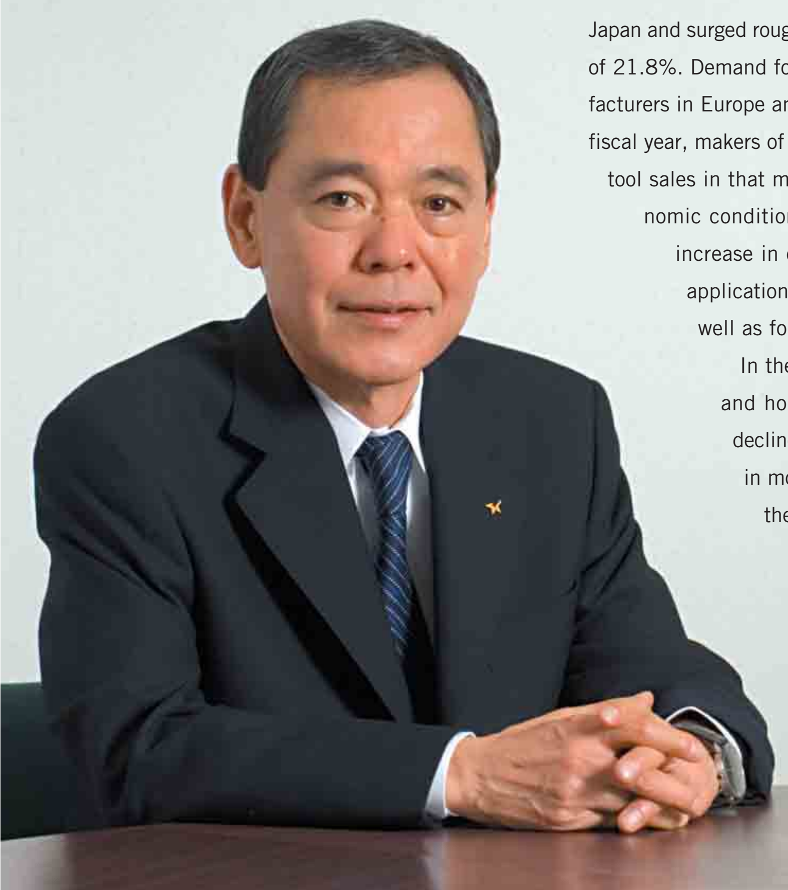
NET INCOME EXCEEDS RECORD SET 16 YEARS AGO

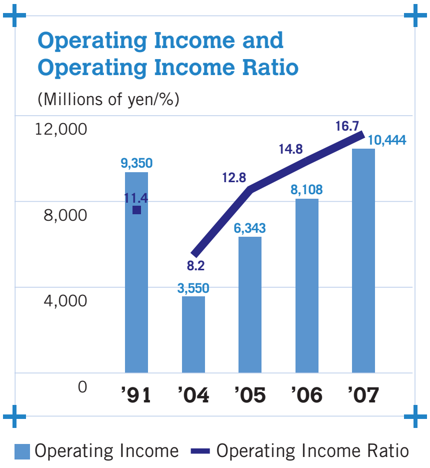
In the year ended February 28, 2007, Star Micronics posted operating income of ¥10,444 million, up 28.8% year on year, and net income of ¥7,013 million, up 36.1%, on 14.4% growth in net sales to ¥62,670 million. These figures represent our fourth consecutive period of top- and bottom-line growth, while net income was a new high, exceeding the previous record set in fiscal 1991. Reflecting this robust performance, we raised the annual dividend per share from ¥21 for fiscal 2006 to ¥32 for the year under review, an increase of ¥11. We have now raised dividends for four years running.

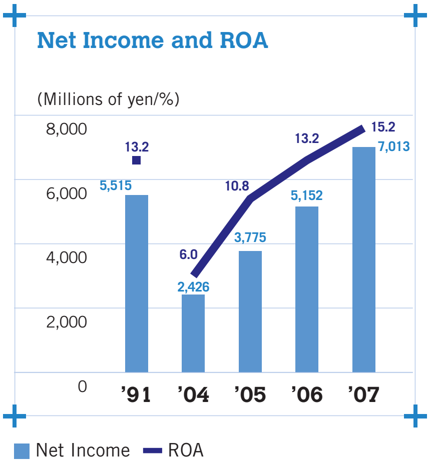
In terms of results by business segment, the Machine Tools Segment maintained its recent strength into fiscal 2007, generating the majority of consolidated operating income, although point-of-sale (POS) printers, part of the Special Products Segment, also contributed substantially to overall performance. While sales of machine tools were largely unchanged in the U.S., they grew by around 8% in Japan and surged roughly 35% and 46% in Europe and Asia, respectively, for an overall increase of 21.8%. Demand for machine tools was particularly strong from precision equipment manufacturers in Europe and from automotive component manufacturers in Asia. As in the previous fiscal year, makers of medical equipment in the U.S. accounted for more than half of machine tool sales in that market as demand from this sector is not overly influenced by wider economic conditions. Meanwhile, the Special Products Segment recorded a year-on-year increase in operating income of 117.9%, mainly due to strong demand for special applications from emerging markets like Brazil, Russia, India and China (BRICs), as well as for conventional POS applications from the U.S. and Europe.

In the Components Segment, sales of micro audio components for automotive and home appliance applications were stable, although segment profitability declined due to larger-than-expected price falls for micro audio components used in mobile phones, which account for roughly 70% of segment sales. Improving the operating income ratio in this segment is now one of our priority issues.

In the Precision Products Segment, overall sales grew only slightly as healthy sales of non-wristwatch components were cancelled out by a drop in sales of wristwatch components. We plan to implement a number of new initiatives in this segment going forward to boost growth.







*ROA = Ordinary Income/Total Assets x 100

Although there was some imbalance in earnings generated by each business segment, this reflected the overall success of our approach of channeling resources and launching new products in growth fields. In businesses with profitability and growth issues, we intend to tackle problems face on by rolling out new initiatives.

CONTINUING TO IMPLEMENT A CLEAR STRATEGY

We posted record-high net income in fiscal 2007. However, this was only achieved after a period of weak performance in the wake of the IT bubble in 2001. At the time, we realized we had to implement reforms to boost the Group's earning power and deliver business stability. The high level of profitability today is a direct result of these efforts. By comparing fiscal 2007 results with fiscal 1991, our last record-setting year, it is clear how far we have come in terms of profitability. In fiscal 1991, we reported operating income of ¥9.4 billion and net income of ¥5.5 billion on net sales of ¥82.3 billion, and an operating income ratio of 11.4%. Although fiscal 2007 sales were around ¥19.6 billion lower than in fiscal 1991, the operating income ratio improved by 5.3 percentage points to 16.7%. Star Micronics' product mix and key products have naturally changed since fiscal 1991, but our stellar results today reflect our strategy of focusing on profitability. So what exactly have we done in this regard?

First, we have shifted production to China, effectively used contractors, and built a network to sell directly to customers. Regarding the latter, our direct sales network for high-end machine tools in the U.S. and Europe has contributed to our improved profitability. And in the low-end SB series of machine tools, we have boosted profit margins by shifting production from Japan to China. The margins on POS printers are also now very high thanks to the effective use of manufacturing facilities in China. In the Precision Products Segment, although we produce relatively small quantities of non-wristwatch components, they have traditionally been high-margin products. These components rely on our high-value-added precision processing technology—a Star Micronics strength. By implementing measures targeting higher margins in all business segments, we aim to raise our overall operating income ratio to around 20% in the long term.

There are two other reasons why we can generate stronger earnings today: a presence in more markets, and a more extensive product portfolio. Our development in the BRICs countries and other emerging markets is especially significant. China is an important manufacturing base for Star Micronics, but we have also focused on marketing our products in the country. For example, we have enjoyed success with machine tools, where we have increased our market share significantly by launching low-end products. Another reason why sales of our machine tools and POS printers are strong today is the well-timed launch of new products to coincide with growth in these emerging markets.

In terms of our product portfolio, we now offer a wider range of machine tools from low-end through to high-end models, and in the Special Products Segment, we supply thermal POS and other printers. In response to the increasing sophistication of mobile phones, we have added speakers, microphones and other devices to our product lineup in the Components Segment. These initiatives have enhanced the management stability of the Star Micronics Group and provided the foundation for further growth in the future.

Star Micronics is also a different company in terms of its financial condition. We have worked to become a leaner company by reducing total assets, including inventories, and used cash generated by our business activities to repay debt. As a result, our balance sheet is now much stronger.

In this way, by clearing a range of objectives one by one, we have successfully turned Star Micronics round. The weak results of the past have given way to the record earnings of today. I believe this vindicates the strategic direction we have taken the Company in recent years.

AIMING FOR NEW HEIGHTS

New Medium-term Targets

Targeting further growth, we began implementing a new medium-term management plan on March 1, 2007. The plan targets operating income of ¥14 billion and net income of ¥9 billion on net sales of ¥76 billion in fiscal 2010. We will focus on two key themes to achieve these goals: pursue greater profitability by accelerating efforts to channel resources into strategic fields, and boost growth by developing new business domains (products, markets and technologies). In this context, we are currently studying a number of specific initiatives, including shifting management resources from the computer printer business, which has posted a loss two years in a row, to the POS printer business, and enhancing growth in non-wristwatch components in the Precision Products Segment. To realize the plan's goals, we also intend to more actively invest in M&As, R&D and other areas to drive growth.

Becoming a Truly Sustainable Company

As times change, so does the concept of the ideal company. Today, modern companies have to do more than generate profits; their actions must be appropriate in the eyes of all stakeholder groups. So in addition to being profitable, they must attain the highest standards in a whole range of areas such as protecting the environment and contributing to local communities. With the enactment in 2006 of the Japanese version of the Sarbanes-Oxley Act, known as J-SOX, companies also have to meet higher standards in internal control and other areas. Against this backdrop, we will continue to enhance internal systems and ensure every employee has an even greater awareness of compliance. It is also vital that we clearly explain our initiatives to stakeholders outside the Company. Aiming to be a truly sustainable company that grows earnings and is trusted by society, we plan to actively implement corporate social responsibility (CSR) activities on an ongoing basis.

May 2007

T. Suzuki

TOSHIHIRO SUZUKI
President and CEO

Taking on New Challenges

Fiscal 2007 was an excellent year for Star Micronics. Supported by another strong performance by the Machine Tools Segment, we posted our fourth consecutive year of top- and bottom-line growth and our highest-ever net income. But to sustain this growth, we must tackle a number of important issues. This section covers these areas in more detail.

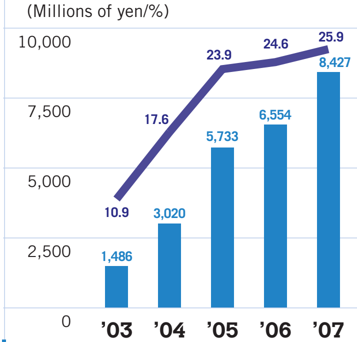
ISSUE 01

Taking the Machine Tools Segment to a New Level

The Machine Tools Segment has been performing well thanks to strong demand driven by vigorous capital investment and a competitive product lineup. After a run of three record years, our goal now is to drive further earnings growth by boosting output in response to healthy demand. But the current strong operating environment won't last forever. That's why we must also put in place a flexible manufacturing framework with low fixed costs to minimize the impact of any future drop in orders.

Machine Tools Segment: Operating Income and Operating Income Ratio

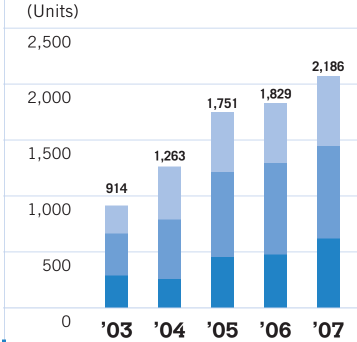
(Millions of yen/%)



Operating Income
Operating Income Ratio

Machine Tool Sales by Region

(Units)



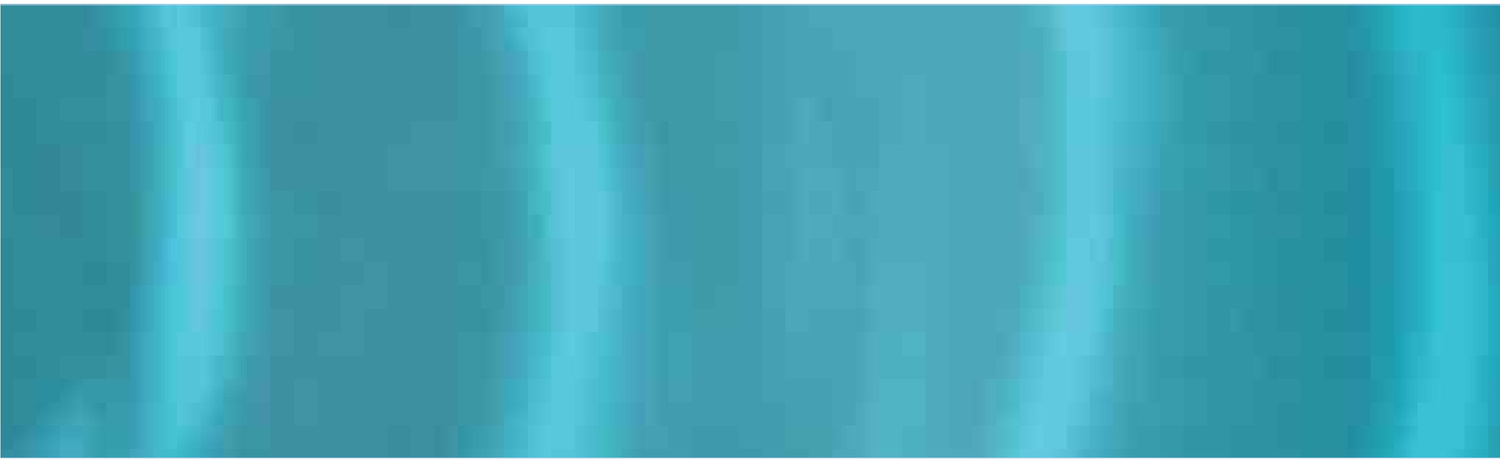
Asia North America and Europe
Japan

THE CHANGING FACE OF GLOBAL DEMAND

Orders in the machine tools market have expanded for the last four years. While the market suffered from severe cyclical changes in demand in the past, it has changed structurally and grown significantly in size in recent years. Structural changes can be put down to two main reasons: growth in new markets like the BRICs countries and Eastern Europe, and increasingly diverse uses for machine tools in the manufacture of mobile phones, digital cameras, hard disk drives (HDDs) and other products. Also, compared with fiscal 1991, our best-ever year for machine tools orders, product performance has increased while prices have almost halved, and replacement demand for models sold in that record year has also supported recent results. But the first two reasons are the most significant. We believe that the market today is less susceptible to the large order fluctuations of the past.

SUSTAINING HIGH MARGINS

The operating margin in the Machine Tools Segment is 25.9%, which we believe is significantly higher than our competitors. There are two reasons for this. First, in response to changes in business conditions, the Star Micronics Group has lowered fixed costs by reducing the volume of in-house production. Over the years, we have followed a policy of maintaining our own core manufacturing functions while outsourcing other production activities. This approach has allowed us to remain profitable in periods of low demand. Second, we have built a firm presence in high-end machine tool markets centered on users in the U.S. and Europe. The creation of direct sales networks in these regions and the provision of optional products and services sold in conjunction with our high-end models have also boosted margins.



Kikugawa Factory

RAISING OUTPUT

Boosting production capacity is an urgent issue for Star Micronics, against the backdrop of sustained strong orders. Our domestic and overseas factories are currently operating at full capacity, producing approximately 200 units per month. In the immediate future, we believe it is possible to raise total monthly output to the 250-unit level (3,000 units annually) by expanding facilities and space at our Kikugawa Factory and our manufacturing subsidiary in Dalian, China. In addition, in the mid-range SR series, we are preparing to shift some production to China and introducing cellular manufacturing practices at our factory in Japan. Going forward, we plan to boost output by continuing to effectively use our sites in China and subcontractors, aiming for a production ratio of 50:50 between Japan and China. This will also support our efforts to create a balanced manufacturing framework capable of responding to any drop in orders.

CNC Swiss-type
Automatic Lathe SB-16 type D

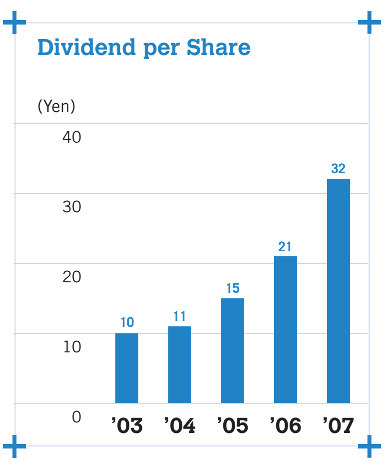
NEW INITIATIVES IN EMERGING MARKETS

In growing emerging markets, we have especially high hopes for China, Russia and Eastern Europe, and Brazil. Aiming for higher sales, we plan to build stronger sales networks in these markets. In China, which we are targeting at the moment, we intend to launch lower-priced models in the SB series to capture greater market share. And with the establishment of a sales subsidiary in the country and the creation of an after-sales network, we now believe we have the comprehensive framework in place to increase sales in the Chinese market. In other regions, our relative lack of business experience means similar steps will take some time, but we plan to build new sales sites in Russia and Eastern Europe followed by South America and other countries.

ISSUE 02

Effectively Utilizing Strong Cash Flows

As of February 28, 2007, Star Micronics had ¥21.2 billion in cash reserves, accounting for 27.8% of all assets. We plan to use these funds for returns to shareholders and to actively invest in the vital area of growth.



RETURNING PROFITS TO SHAREHOLDERS

Star Micronics' fundamental policy on returning profits to shareholders is to sustain a dividend payout ratio of at least 20%. Reflecting our robust performance in fiscal 2007, we raised the annual dividend per share from ¥21 for fiscal 2006 to ¥32 for the year under review, an increase of ¥11. We have now raised dividends for four years running. From fiscal 2008, over the medium term, we are targeting a dividend payout ratio of at least 35%, or a dividend on equity (DOE) ratio of 4% or higher. Repurchasing our own shares is also a policy we will consider as part of returns to shareholders. Here, we plan to take a flexible approach based on trends in equity markets and other factors.

INVESTING IN M&AS AND OTHER AREAS

Investing in growth, in addition to returning profits to shareholders, is an important issue for Star Micronics. Currently, we are considering using our cash reserves in M&A deals, with a particular focus on companies that will give Star Micronics access to other precision processing technologies. By acquiring these new technologies, we believe we can create synergies by combining them with our own portfolio of technologies to create products with higher added-value. Our fundamental thinking on M&As is to target companies with close links to Star Micronics' operating fields so any acquisitions or partnerships reinforce our existing capabilities. In short, it is important that these deals add value to our own strengths. Because manufacturing companies have their own unique ways of doing things, any move we make to acquire another firm will not be hostile but based on mutual understanding built up over time. We also plan to study possible investment in R&D business ventures.

ISSUE 03

Aiming for Sustainable Growth

The Star Micronics Group constantly targets new growth fields in an effort to access more business opportunities. Specific steps include expanding our product portfolio and moving into emerging growth markets like the BRICs countries. With plenty of room for expansion in our four business segments, we believe we can boost earnings further by continuing to implement our current strategy.

TSP100 futurePRNT™
A multi-function thermal printer capable of rapid throughput even on complex printing jobs; it has won strong market support since its September 2005 launch.

Shanghai S&E Precision Co., Ltd.
Shanghai S&E Precision's earnings have grown steadily since its establishment. It has made a significant contribution to earnings in the Precision Products Segment since it was included within the scope of consolidation in fiscal 2006.

DRIVING GROWTH BASED ON A TIGHTER STRATEGIC FOCUS

By using management resources even more effectively in our four business segments to access more business opportunities, we intend to take sales and earnings to the next level of growth. This will entail greater concentration of our resources on strategic fields. One example is POS printers in the Special Products Segment. The POS printer business is currently performing very strongly thanks to the launch of unique products coupled with an expanding market. We see the potential for accelerating this growth further by concentrating our strategic resources in this field. In the Precision Products Segment, our main area of focus will be a new factory in Thailand to produce non-wristwatch components. As with the establishment of another subsidiary, Shanghai S&E Precision Co., Ltd., we plan to take a joint-venture approach. Our partner will be Katayama Rivet & Screw Co., Ltd., and Star Micronics will have a 70% equity stake in the new company. The factory is scheduled to come onstream in the second half of 2007 and will primarily target Japanese firms with bases in Asia. By implementing this and other initiatives, we plan to enhance the growth potential of our non-wristwatch component business. Going forward, we intend to continue this process of prioritizing the allocation of resources to enhance both our growth potential and profitability.

OUR POLICY: STAYING TRUE TO OUR ORIGINAL BUSINESS MODEL

One of the features of our development as a company has been our success in winning high shares in niche markets. In fact, since our foundation, our policy has been to target specialized markets that pose barriers to larger firms but where we can leverage our unique strengths. So instead of targeting large consumer electronics markets, we seek to capture just double-digit shares of corporate user markets worth ¥100 billion. If we challenged larger companies on their own turf, we would find it hard to compete against their comprehensive strengths even in growth markets. This approach underpins our original business model and we have no plans to change it. By fully leveraging our unique strengths and core technologies built up over many years, and consistently targeting growing fields, we are confident we can deliver sustainable growth going forward.

AT A GLANCE

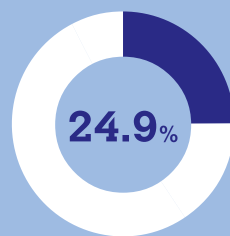
Consolidated Subsidiaries | **Sales by Segment** | **Main Products & Services**

SPECIAL PRODUCTS

Manufacturing Subsidiaries
Star Micronics Manufacturing Dalian Co., Ltd.
Star Precisions Ltd.
Micro Takemi Company

Sales Company
Star Micronics Co., Ltd.

Sales Subsidiaries
Star Micronics America, Inc.
Star Micronics Europe Ltd.
Star Micronics Asia Ltd.



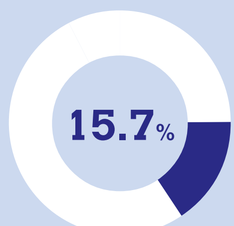
This segment's main products are point-of-sale (POS) printers and computer printers. Star Micronics' POS printers are mainly supplied to the U.S. and European markets, and to emerging markets for lottery terminal applications. POS printers are available in both thermal and dot versions, with thermal models that print onto heat-sensitive paper becoming increasingly popular in recent years. The segment also supplies card reader/writer devices for shopping point cards and other writable card media.

COMPONENTS

Manufacturing Subsidiaries
Star Micronics Manufacturing Dalian Co., Ltd.
Star Precisions Ltd.

Sales Company
Star Micronics Co., Ltd.

Sales Subsidiary
Star Micronics America, Inc.



Micro audio components such as electronic buzzers, microphones, speakers and receivers.

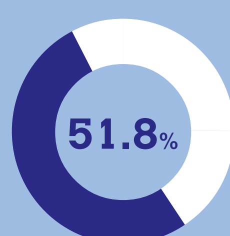
MACHINE TOOLS

Manufacturing Company
Star Micronics Co., Ltd.

Manufacturing Subsidiaries
Star Micronics Manufacturing Dalian Co., Ltd.
Toshin Seiki Company
OS Metal Company

Sales Company
Star Micronics Co., Ltd.

Sales Subsidiaries
Star CNC Machine Tool Corporation
Star Micronics AG
Star Micronics GB Ltd.
Star Micronics GmbH
Star Machine Tool France SAS
Shanghai Xingang Machinery Co., Ltd.
Star Micronics (Thailand) Co., Ltd.



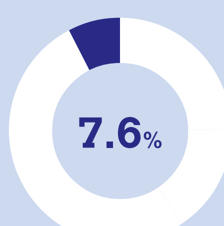
CNC automatic lathes capable of high-precision, complex geometry machining (high-end, mid-range and single-function models, and support software for machine tools, etc.)

PRECISION PRODUCTS

Manufacturing Company
Star Micronics Co., Ltd.

Manufacturing Subsidiaries
Star Micronics Manufacturing Dalian Co., Ltd.
Shanghai S&E Precision Co., Ltd.
S&K Precision Technologies (Thailand) Co., Ltd.* (Established April 2007)
Micro Sapporo Company
Micro Kikugawa Company

Sales Company
Star Micronics Co., Ltd.



Components for wristwatches, automobiles, medical equipment, fiber optic connectors, HDDs and other products.

* Scheduled to become a consolidated subsidiary from fiscal 2008

Main Markets	Key Advantages	Industry Outlook
POS printers: U.S./Europe: POS applications in the distribution, retailing and other sectors. Emerging markets: Lottery terminals and other applications. Computer printers: The Chinese business community (including printers for VAT and local tax systems).	• A strong customer base and high brand awareness in the printer market. • Cost-competitive manufacturing based in China. • A lineup of distinctive products.	• Demand in the U.S. and European POS system markets is expected to continue growing. • Demand for special POS printer applications is large and expected to grow further in India, Russia, Brazil and other emerging markets.
Manufacturers of mobile phones, automobiles, digital equipment, medical equipment and other products.	• A broad lineup of micro audio components with a competitive edge in terms of compactness and thinness. • A proven track record as a supplier to leading overseas mobile phone manufacturers.	• Supported by expansion in China, India and other BRICs countries, global shipments of mobile phones are expected to grow further in fiscal 2008, with demand for mobile terminals expected to top 1 billion units for the first time. Price-based competition, however, is projected to be intense. • The digital equipment and automotive-related fields are forecast to continue growing strongly.
Manufacturers of components for automobiles, consumer electronics, industrial machinery, medical equipment, aircraft, precision devices and other products.	• A broad lineup of products from high-end to low-end models. • A high market share (approximately 29% based on Star Micronics' own data for 2007) anchored by a trusted global brand. • Cost-competitive manufacturing based in China (some products). • A global sales network and comprehensive after-sales services.	• Fiscal 2008 is expected to be another year of strong orders supported by firm demand in overseas markets. Overseas sales as a proportion of total sales are forecast to rise. • Investment is expected to recover in the automotive sector in the second half of fiscal 2008. • Demand driven by robust capital investment in the precision equipment, automotive and other sectors is projected to continue.
Finished product manufacturers in related fields.	• A long history in this field since the establishment of Star Micronics. • Low-cost, high-output manufacturing technologies thanks to a high level of automation. • One of the few players in the industry with an integrated precision component manufacturing framework covering machining through assembly.	• Although the wristwatch component market is stable, it is a mature market with no prospects for significant growth over the long term. • In non-wristwatch components, growth is expected in the HDD, automotive and medical equipment fields. • Japanese manufacturers setting up factories in overseas markets increasingly need precision components supplied locally.

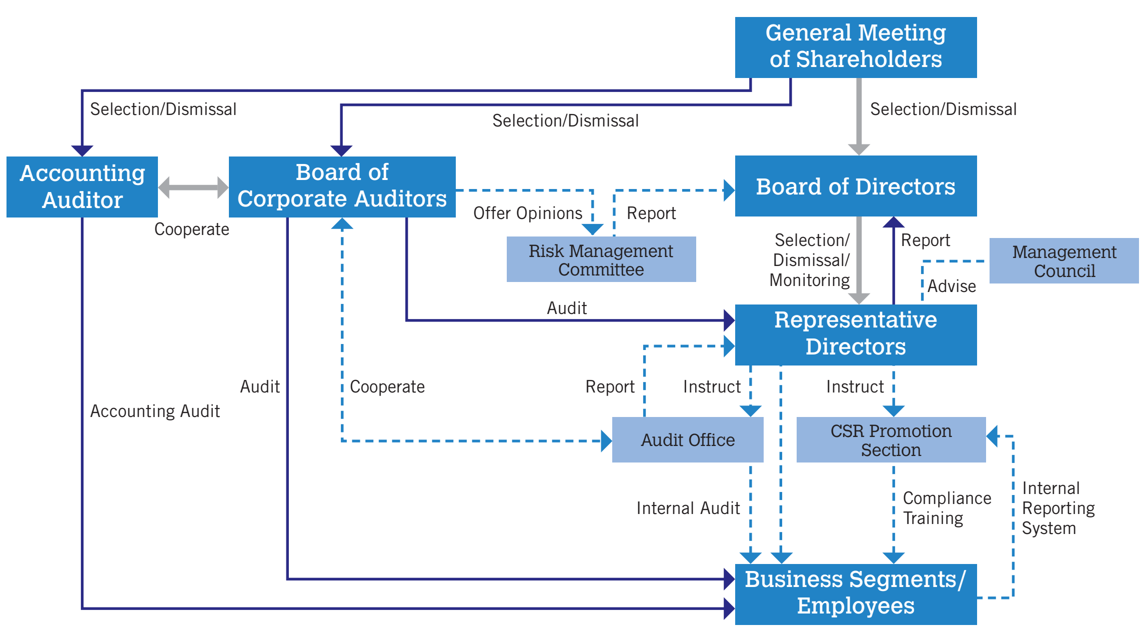
CORPORATE GOVERNANCE INITIATIVES

At Star Micronics, our basic approach to corporate governance is based on fulfilling our 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.

Star Micronics uses the corporate auditor system. Under this system, the Board of Directors is responsible for making rapid and reasoned management decisions and executing strategy in a flexible manner. To ensure proper decision-making and operational execution, we have appointed corporate auditors, including full-time auditors, all of whom are outside appointments. We have also concluded an audit contract with the accounting auditor, Deloitte Touche Tohmatsu. The accounting auditor works with the Board of Corporate Auditors to conduct appropriate audits of the Company.

In order to ensure compliance with all relevant laws and regulations and business ethics, we have established a dedicated internal organization to promote compliance as well as formulated the Star Micronics Charter of Corporate Conduct and a Code of Conduct. In addition, we are taking steps to enhance our internal control system, such as by establishing a new Risk Management Committee, to mitigate and respond to risks faced by the Company.

Star Micronics' Corporate Governance System



CONSOLIDATED FIVE-YEAR SUMMARY

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Five years ended the last day of February

	Millions of yen (Except for per share data)				
	2007	2006	2005	2004	2003
For the year:					
Net sales	**¥62,670**	¥54,788	¥49,690	¥43,332	¥38,612
Cost of sales	**37,004**	32,875	30,742	28,161	25,225
Selling, general and administrative expenses	**15,222**	13,805	12,605	11,621	10,979
Operating income	**10,444**	8,108	6,343	3,550	2,408
Other income (expenses)–net	**410**	(68)	(688)	(286)	(980)
Income before income taxes and minority interests	**10,854**	8,040	5,655	3,264	1,428
Income taxes	**3,719**	2,799	1,881	828	997
Minority interests in net income (loss)	**122**	89	(1)	10	(3)
Net income	**7,013**	5,152	3,775	2,426	434
Per share:					
Basic net income	**¥131.09**	¥ 95.60	¥ 70.13	¥ 44.12	¥ 7.77
Diluted net income	**130.73**	95.38	70.09		
At year-end:					
Current assets	**¥53,620**	¥44,615	¥40,170	¥36,355	¥38,424
Net property, plant and equipment	**16,355**	16,210	14,698	15,604	17,602
Total assets	**76,195**	66,826	60,013	57,898	62,403
Long-term liabilities	**920**	793	349	1,277	2,575
Total equity	**61,396**	54,295	47,754	44,613	45,024

	Yen				
Stock exchange price per share of common stock:					
Highest	**¥2,710**	¥2,090	¥1,030	¥830	¥1,120
Lowest	**1,691**	941	704	418	420

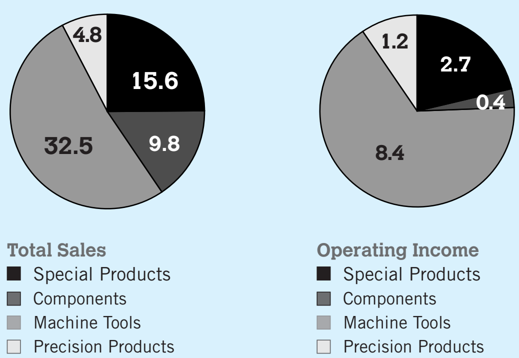
MANAGEMENT'S DISCUSSION AND ANALYSIS

SEGMENT OVERVIEW

For accounting purposes, Star Micronics' operations are classified into four segments. Performance by segment is described below.

Sales and Operating Income by Segment

(Billions of yen)



Note: Corporate expenses of ¥2.4 billion have been included in operating income.

SPECIAL PRODUCTS

In the Special Products Segment, the main products are point-of-sale (POS) printers and other products. Sales rose 23.9% year on year to ¥15,608 million (US$132,271 thousand).

Sales of POS printers and others grew significantly, rising 40.9% year on year to ¥11,607 million. This was due to active sales activities and the timely introduction of products in an expanding global marketplace, including major expansion in special-application niche markets in emerging economies. We were able to secure large contracts in a broad range of fields such as POS lottery ticket machines and kiosk terminals. This was achieved not only in the markets of North America and Europe, but also in India and Russia and other emerging markets.

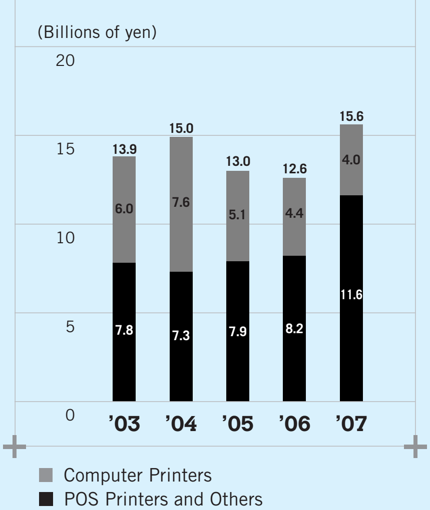
On a regional basis, sales in Europe grew strongly, one reason being that customers like Harrods Department Store of the U.K. adopted our POS printers. In terms of models, sales of the TSP700, our highly acclaimed mainstay POS model, and the TSP100, our high-quality, high-speed, multifunctional thermal printer, were major contributors to segment growth. The TSP100 features a built-in power source and, among other functions, the ability to be programmed by a personal computer. We intend to further increase market share going forward by continuing to develop similar products with added value and by acquiring more direct sales accounts.

In computer printers, mainly targeted at the Chinese market, Star Micronics has worked to put in place an integrated local operating framework covering all operations from manufacturing to sales. In the year under review, we focused on agent-based sales through the reorganization and strengthening of our sales network in the Chinese market. In spite of this, however, competition with rival manufacturers was intense and sales of computer printers fell 8.2% year on year to ¥4,001 million, the third consecutive annual sales decline. This can be attributed to the lack of any significant moves concerning the Chinese tax collection system and local taxation projects. At present, the outlook for the restart of these taxation projects is unclear.

Despite the lack of clarity concerning local tax projects, Star Micronics is convinced that China views the adoption of a new tax system as a major national project to be completed in time for the Beijing Olympics in 2008 and the 2010 Shanghai World Expo, and preparations in the marketplace will undoubtedly continue to move forward. However, regarding the development of computer printers as a business in the future, we believe the situation requires further study.

As a result of the foregoing, even though there was a lull in computer printer sales, growth in POS printer sales and the benefits of higher output and steps to reduce costs led to an increase in operating income of ¥1,459 million, or 117.9%, to ¥2,696 million (US$22,847 thousand).

Special Products Segment Sales



COMPONENTS SEGMENT

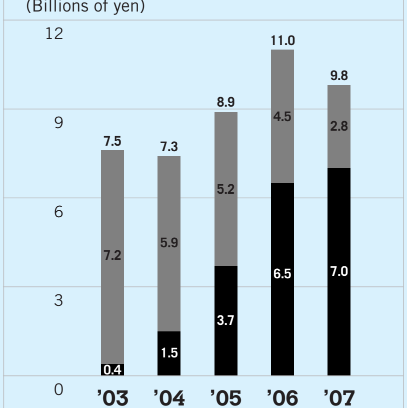
Sales in the Components Segment decreased ¥1,169 million, or 10.6%, to ¥9,826 million (US$83,271 thousand). In this segment, Star Micronics is aiming to become a comprehensive manufacturer of micro audio components by moving into new product fields, such as microphones, receivers and speakers, thereby reducing its dependence on its hitherto mainstay product, electronic buzzers. We have also diversified the segments' customer base away from mobile telephone manufacturers. The result is that the Components Segment now supplies components for automobile ETC terminals, digital cameras, and other devices. We continue to make steady progress in this area.

Mobile phones, the main market for this segment, require components that are compact, thin, and offer a high-level of functionality. On a unit volume basis, sales of receivers amounted to 76 million units, up 1.3 times year on year. Meanwhile, sales of speakers grew 1.6 times on a unit volume basis to 20 million units, reflecting their use in mobile phones both domestically and internationally due to their high sound quality and reliability, as well as rising sales in the automotive-related market where they are used in car navigation systems and other products. In microphones, we launched new compact versions for mobile phones. However, demand for existing models remained strong, leading to only a slight increase in unit sales to 37 million units in the microphones and others category. Meanwhile, although our electronic buzzers have won strong support in the automotive sector for being environmentally friendly and designed to meet required safety standards, unit sales dropped to 47 million, half of that of the previous year, due to a rapid drop in their use in the mainstay mobile phone market where they are used as sounders for incoming calls.

Global shipments of mobile phones in fiscal 2008 are estimated to exceed 1 billion units. Our goal is to attain a volume of shipments that exceeds the growth rate of the market as a whole. As one of the world's leading mobile phone makers has decided to adopt our digital microphone in the year ending February 2008, we expect some growth in this area. However, given the risk of too great a reliance on the mobile phone market and the possibility of falling unit prices, we plan to continue expanding into other areas, one example being speakers for automobiles.

Components Segment Sales

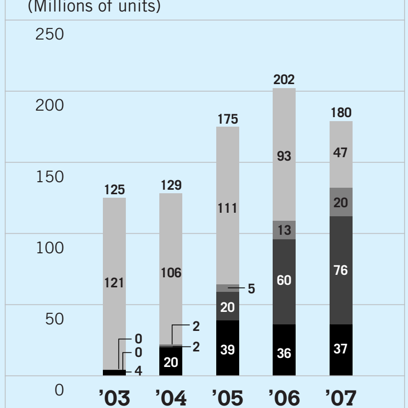
(Billions of yen)



Buzzers
New Components

Components Segment Sales by Volume

(Millions of units)



Buzzers
Speakers
Receivers
Microphones & Others

MACHINE TOOLS SEGMENT

Star Micronics' CNC automatic lathes have earned worldwide acclaim. 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 a motion control system; and the SB-16, a machine tool entirely made in China that offers manufacturers superior cost-performance.

Against the backdrop of strong global demand for CNC automatic lathes due to capital spending to update equipment and increase production capacity, sales of Star Micronics' products grew significantly supported by high levels of competitiveness.

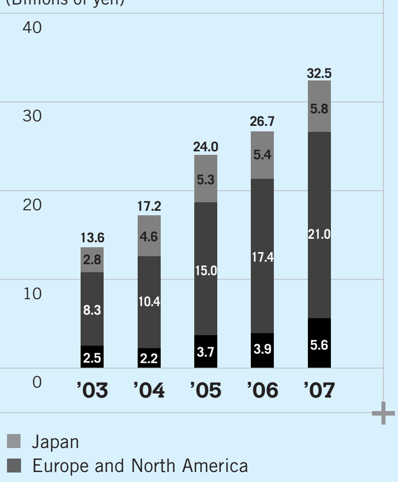
We continue to move forward with our marketing activities, striving to expand orders based on products we consider to be the pillars of this segment: the ECAS series, our range of ultra-complex machines equipped with a unique proprietary control system; the SR-32J, our mid-range complex low-cost machine for large-diameter machining; the SR-20RII, our best seller; the SB-16 series, which now includes a new upgraded model; and the SR-10J for small-diameter machining. Moreover, as a result of efforts to develop our position in emerging markets that are beginning to expand in Asia, South America, and Central and Eastern Europe, sales grew 21.8% year on year to ¥32,479 million (US$275,246 thousand). Sales rose year on year by region as well, including Japan, other Asian countries, Europe and North America. The number of units sold increased 19.5% year on year to 2,186 units, as orders reached record levels. Overseas sales, as a percentage of total segment sales, rose by 2.3 percentage points to 82.1%, due in part to marked sales increases in Europe and the U.S.

As a result of the foregoing, operating income rose ¥1,873 million, up 28.6% year on year, to ¥8,427 million (US$71,415 thousand), while the operating income ratio rose 1.3 points to 25.9%. The increase in profitability was chiefly attributable to the effects of the improved product mix, resulting in rising sales of higher margin models in Europe and North America, and high levels of capacity utilization supported by strong orders.

Looking at the market environment in the year under review, demand from customers in the electrical and precision instruments sectors was very strong in Europe. In North America, while sales of machine tools for medical components were flat, sales in Asia for machine tools used to manufacture automotive parts were strong. During the fiscal year ending February 28, 2008, we expect sales to continue rising supported by growth in emerging markets such as Russia, Eastern Europe and South America.

Machine Tools Segment Sales by Geographical Region

(Billions of yen)



Regarding production capacity, the new plant constructed in the previous fiscal year is operating at full capacity. In addition, productivity was also improved by expanding the plant in China. We think this will allow us to respond to the anticipated increase in future orders. We plan to improve cost-performance even further by continuing to shift production to China.

PRECISION PRODUCTS

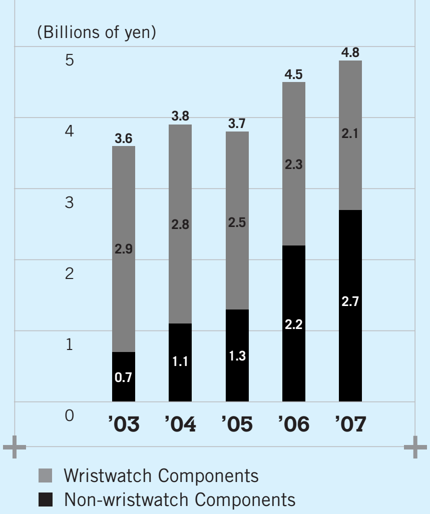
The products in this segment can be divided into two main areas: wristwatch components, a business the Company has been involved in since it was founded, and precision components (also referred to as non-wristwatch components).

Although the market for wristwatch components is stable, it is also mature and has no prospects for high growth over the long term. As a result, the segment is striving to increase earnings by strategically focusing on markets for non-wristwatch components. More specifically, Star Micronics is applying its precision processing technology to fields where precision components are difficult to manufacture: hard disk drive (HDD) components (axle nuts), dental drills and implant parts, medical components, such as bone screws for bone-setting, car audio components and optical fiber connector parts.

In wristwatch components, sales fell 8.6% year on year to ¥2,092 million due to the impact of a shrinking watch movement market in volume terms and a shift to small multi-lot production by Japanese manufacturers as they focus on high-value-added products. Meanwhile, in non-wristwatch components, sales of components for 2.5-inch HDDs rose due to higher demand for laptop computers. Moreover, sales of components for car audio equipment produced by our Chinese subsidiary also increased on the back of expansion in the Chinese automobile market. As a result, sales of non-wristwatch components rose 19.4% year on year to ¥2,664 million. Non-wristwatch components now account for 56.0% of segment sales, outstripping sales of wristwatch components.

As a result of the above, segment sales rose ¥236 million, or 5.2% year on year, to ¥4,757 million (US$40,314 thousand). Operating income increased ¥133 million, or 12.0%, to ¥1,240 million (US$10,509 thousand), while the operating margin rose 1.6 percentage points to 26.1%.

Precision Products Segment Sales



INCOME ANALYSIS

Net sales rose ¥7,882 million, or 14.4% year on year, to ¥62,670 million (US$531,102 thousand). Although the Components Segment posted a decline in sales, the only segment to do so, the Company reported its third consecutive year of record sales in the Machine Tools Segment, while the Special Products Segment chalked up strong gains. Both these segments were the main sales drivers.

The cost of sales rose ¥4,129 million, or 12.6%, to ¥37,004 million (US$313,594 thousand). As a result, gross profit increased ¥3,753 million, or 17.1% year on year, to ¥25,666 million (US$217,508 thousand). The gross profit margin rose 1.0 percentage point to 41.0%. As in the previous fiscal year, this was primarily due to the Machine Tools Segment accounting for a high share of total sales at 51.8%, and a major increase in sales of POS printers and others in the Special Products Segment.

Selling, general and administrative (SG&A) expenses increased ¥1,417 million, or 10.3%, to ¥15,222 million (US$129,000 thousand). This rise was due mainly to higher direct costs, such as sales commissions and other items that rose in line with sales, and higher labor costs.

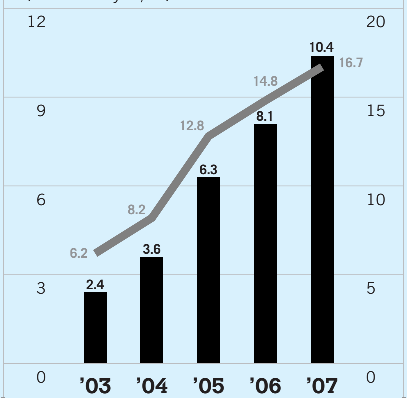
As a result of the above, operating income climbed ¥2,336 million, or 28.8%, to ¥10,444 million (US¥88,508 thousand), while the operating income ratio rose 1.9 percentage points to 16.7%.

Other income–net totaled ¥410 million (US$3,475 thousand) compared to other expenses–net of ¥68 million in the previous fiscal year. This reflected the absence of a charge for impairment of long-lived assets posted in fiscal 2006 and an increase in interest and dividend income of ¥172 million, or 78.5%, to ¥391 million. The exchange loss–net was ¥149 million, about the same as the previous fiscal year.

As a result, income before income taxes and minority interests increased ¥2,814 million, or 35.0%, to ¥10,854 million (US$91,983 thousand), while total income taxes were ¥3,719 million. Net income after deducting minority interests increased ¥1,861 million, or 36.1% year on year, to ¥7,013 million (US$59,432 thousand). Basic net income per share increased ¥35.49 to ¥131.09 (US$1.11) and diluted net income per share increased ¥35.35 to ¥130.73 (US$1.11). As a result of this strong performance, Star Micronics has decided

Operating Income and Operating Income Ratio

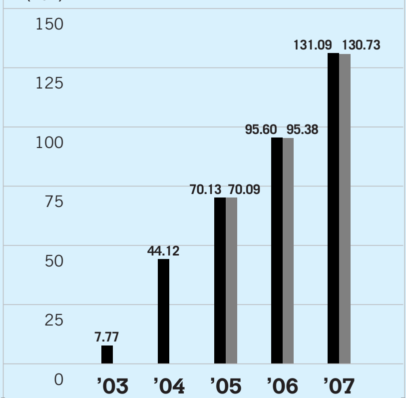
(Billions of yen, %)



■ Operating Income
— Operating Income Ratio

Earnings per Share

(Yen)



■ Basic Net Income
■ Diluted Net Income

to raise the annual dividend for the year under review by ¥11 to ¥32 (US$0.27) per share, representing a dividend payout ratio of 24.4%. Regarding future dividends, the Company, after taking its future operating environment and other factors into account, aims to achieve a dividend payout ratio of at least 30% of consolidated net income. For fiscal 2008, we plan to raise the annual dividend by ¥10 to ¥42. In the medium term, we will aim for either a dividend payout ratio of at least 35% or a dividend on equity (DOE) ratio of 4.0% or higher.

FINANCIAL POSITION & LIQUIDITY

Total current assets as of February 28, 2007 were ¥53,620 million (US$454,407 thousand), an increase of ¥9,005 million, or 20.2% compared with the previous fiscal year-end. This rise reflected increases in cash and cash equivalents of ¥6,772 million, or 46.9%, to ¥21,196 million as a result of higher sales and profits. Inventories increased ¥1,038 million, up 9.0% year on year, to ¥12,530 million.

Net property, plant and equipment increased ¥145 million, or 0.9%, to ¥16,355 million (US$138,601 thousand). Total investments and other assets increased ¥219 million, or 3.6% year on year, to ¥6,220 million (US$52,712 thousand).

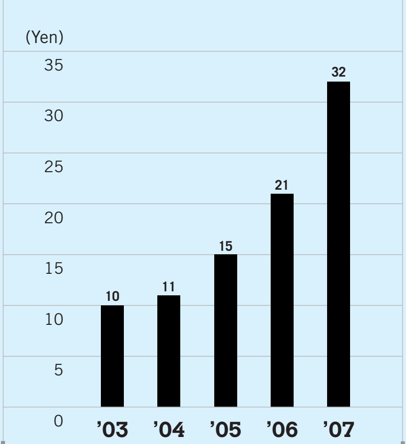
As a result of the above, total assets increased ¥9,369 million, or 14.0% year on year, to ¥76,195 million (US$645,720 thousand).

On the other side of the balance sheet, current liabilities increased ¥2,508 million, or 22.1%, to ¥13,879 million (US$117,619 thousand).

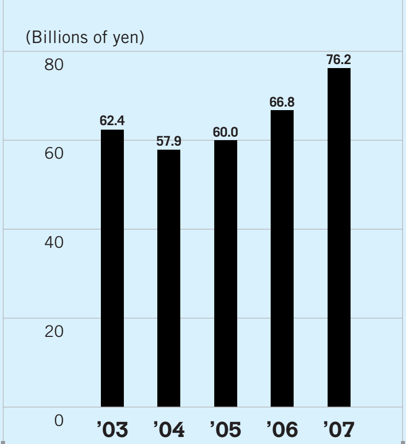
Total long-term liabilities increased ¥127 million, or 16.0%, to ¥920 million (US$7,796 thousand).

Total equity excluding minority interests rose ¥6,596 million, or 12.1%, to ¥60,891 million (US$516,025 thousand). This increase was due mainly to higher retained earnings and an improvement in foreign currency translation adjustments. The total equity ratio fell 1.3 percentage points to 79.9%, while equity per share increased ¥122.06 to ¥1,137.05.

Dividends per Share



Total Assets



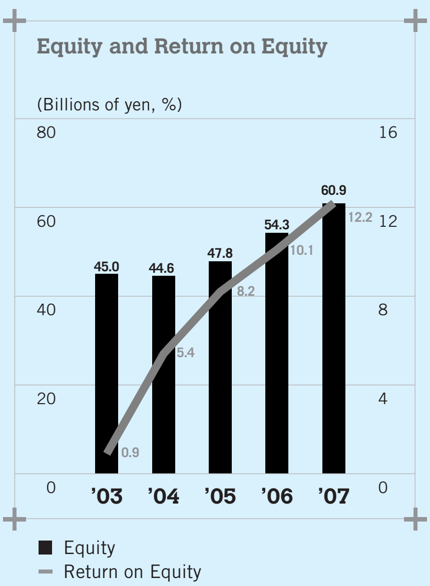
CASH FLOWS

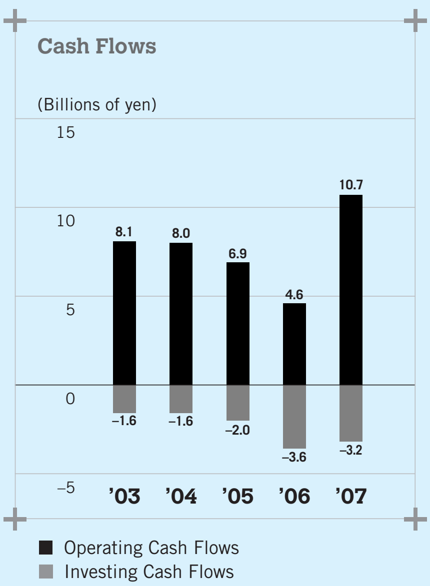
Net cash provided by operating activities increased ¥6,117 million to ¥10,711 million (US$90,771 thousand). The main reasons for this were an increase of ¥2,814 million in income before income taxes and minority interests to ¥10,854 million, and an improvement in net cash inflow from trade receivables, trade payables, and inventories of ¥3,742 million to ¥409 million.

Net cash used in investing activities was ¥3,169 million (US$26,856 thousand), a decline of ¥450 million year on year. This chiefly reflected an increase in cash used for purchases of marketable and investment securities of ¥245 million to ¥252 million, and a decline of ¥640 million in cash used for purchases of property, plant and equipment to ¥2,748 million.

Net cash used in financing activities was ¥1,331 million (US$11,279 thousand), an increase of ¥465 million. This was mainly the result of an increase of ¥484 million in dividends paid to shareholders to ¥1,390 million.

After foreign currency translation adjustments on cash and cash equivalents of ¥561 million (US$4,754 thousand), the net increase in cash and cash equivalents for the year was ¥6,772 million (US$57,390 thousand). Cash and cash equivalents as of February 28, 2007 totaled ¥21,196 million (US$179,627 thousand).





CAPITAL EXPENDITURES AND R&D EXPENSES

Capital expenditures for the year totaled ¥2,908 million (US$24,644 thousand), a decrease of ¥884 million, or 23.3%, compared to the previous fiscal year.

Expenditures in the Special Products Segment fell ¥171 million to ¥484 million. In fiscal 2008, the Company is budgeting expenditures in this segment in the amount of ¥1,024 million, mainly for new tooling.

Expenditures in the Components Segment increased ¥216 million to ¥974 million. In fiscal 2008, we estimate that ¥1,329 million will be utilized to invest in equipment related to the introduction of new processing methods.

In the Machine Tools Segment, expenditures fell ¥988 million year on year to ¥1,033 million. In fiscal 2008, we anticipate that ¥1,592 million will be spent to increase production capacity and carry out rationalization.

In the Precision Products Segment, expenditures increased ¥20 million to ¥349 million. ¥789 million is budgeted for fiscal 2008.

Research and development (R&D) expenses in fiscal 2007 declined ¥47 million, or 2.1%, to ¥2,145 million (US$18,178 thousand). This represented 3.4% of total sales, a slight decline over the previous year. In addition to creating innovative products, R&D programs have been focused on the development of production technologies that achieve improved cost performance and greater miniaturization. Recently, we have been developing a micro pump that can deliver minute amounts of fuel to power ultra-compact fuel cells. We have received a large number of inquiries from customers both in Japan and overseas and have delivered prototypes for customer evaluation. In addition, we are working to acquire state-of-the-art, high-precision miniature component processing technologies.

SALES FRAMEWORK AND NET SALES BY REGION

A significant proportion of Star Micronics' products are sold in international markets. To provide customer support globally, the Company operates an extensive network of overseas sites. (See table)

	U.K.	Germany	France	Switzerland	U.S.	Thailand	Hong Kong	China
Special Products	Star Micronics Europe Ltd.				Star Micronics America, Inc.*		Star Micronics Asia Ltd.	
Machine Tools	Star Micronics GB Ltd.	Star Micronics GmbH	Star Machine Tool France SAS	Star Micronics AG	Star CNC Machine Tool Corporation	Star Micronics (Thailand) Co., Ltd.		Shanghai Xingang Machinery Co., Ltd.

* Star Micronics America, Inc. markets components in addition to special equipment.

In the fiscal year under review, overseas sales as a proportion of total sales increased 1.9 percentage points to reach 80.3%. The biggest reason for this rise was strong demand from Europe and for products supplied by the Machine Tools Segment. In the Special Products Segment, sales increased not only in Europe and North America, but also in emerging markets such as India and Russia.

In Europe, net sales increased ¥4,450 million to ¥20,174 million (US$170,966 thousand), representing 32.2% of total sales and a 3.5 percentage point increase over the previous year.

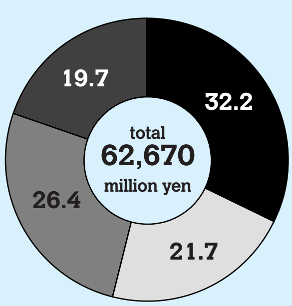
In North America, net sales rose ¥926 million to ¥13,620 million (US$115,424 thousand), representing a 1.5 percentage point drop to 21.7% of total sales.

Net sales in Asia increased ¥1,984 million to ¥16,509 million (US$139,907 thousand). Asia's share of total sales fell 0.1 percentage of a point to 26.4%.

In Japan, the main products are machine tools and precision products. Domestic sales increased ¥522 million to ¥12,367 million (US$104,805 thousand), representing 19.7% of total sales, down 1.9 percentage points year on year.

Net Sales by Region

(%)



Europe
North America
Asia
Japan

CONSOLIDATED BALANCE SHEETS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
February 28, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2007**	2006	**2007**
Current assets:			
Cash and cash equivalents	**¥ 21,196**	¥ 14,424	**$ 179,627**
Marketable securities (Note 3)		21	
Short-term investments (Note 4)	**1,239**	1,132	**10,500**
Receivables:			
Trade notes and accounts receivable (Note 11)	**15,159**	14,850	**128,466**
Unconsolidated subsidiaries and associated companies	**83**	255	**703**
Other	**1,056**	680	**8,949**
Allowance for doubtful receivables	**(313)**	(278)	**(2,652)**
Inventories (Note 5)	**12,530**	11,492	**106,187**
Deferred tax assets (Note 10)	**2,204**	1,629	**18,678**
Prepaid expenses and other	**466**	410	**3,949**
Total current assets	**53,620**	44,615	**454,407**
Property, plant and equipment			
Land (Note 6)	**2,457**	2,456	**20,822**
Buildings and structures	**13,450**	13,409	**113,983**
Machinery and equipment	**34,483**	33,096	**292,229**
Construction in progress	**58**	29	**491**
Total	**50,448**	48,990	**427,525**
Accumulated depreciation	**(34,093)**	(32,780)	**(288,924)**
Net property, plant and equipment	**16,355**	16,210	**138,601**
Investments and other assets:			
Investment securities (Note 3)	**3,474**	3,363	**29,441**
Investments in and advances to unconsolidated subsidiaries and associated companies	**56**	48	**475**
Goodwill	**849**	1,061	**7,195**
Deferred tax assets (Note 10)	**44**	36	**373**
Other assets	**1,797**	1,493	**15,228**
Total investments and other assets	**6,220**	6,001	**52,712**
Total	**¥ 76,195**	¥ 66,826	**$ 645,720**

See notes to consolidated financial statements.

Liabilities and equity	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Payables:			
Trade notes and accounts	**¥ 5,942**	¥ 4,794	**$ 50,356**
Other	**1,417**	1,311	**12,009**
Income taxes payable (Note 10)	**2,441**	1,344	**20,686**
Accrued expenses	**2,137**	1,974	**18,110**
Other	**1,942**	1,948	**16,458**
Total current liabilities	**13,879**	11,371	**117,619**
Long-term liabilities:			
Liability for retirement benefits (Note 7)	**255**	270	**2,161**
Deferred tax liabilities (Note 10)	**652**	523	**5,525**
Other	**13**		**110**
Total long-term liabilities	**920**	793	**7,796**
Minority interests		367	
Contingent liabilities (Notes 13 and 15)			
Equity (Notes 8, 9 and 18):			
Common stock, – authorized, 158,000,000 shares; issued, 54,533,234 shares in 2007 and 2006	**12,722**	12,722	**107,813**
Capital surplus	**13,938**	13,909	**118,119**
Retained earnings	**33,605**	28,033	**284,788**
Unrealized gain on available-for-sale securities	**917**	932	**7,771**
Foreign currency translation adjustments	**487**	(487)	**4,127**
Treasury stock – at cost 981,544 shares in 2007 and 1,090,530 shares in 2006	**(778)**	(814)	**(6,593)**
Total	**60,891**	54,295	**516,025**
Minority interests	**505**		**4,280**
Total equity	**61,396**	54,295	**520,305**
Total	**¥76,195**	¥66,826	**$645,720**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Net sales (Note 11)	**¥62,670**	¥54,788	**$531,102**
Cost of sales (Note 7)	**37,004**	32,875	**313,594**
Gross profit	**25,666**	21,913	**217,508**
Selling, general and administrative expenses (Notes 7 and 12)	**15,222**	13,805	**129,000**
Operating income	**10,444**	8,108	**88,508**
Other income (expenses):			
Interest and dividend income	**391**	219	**3,314**
Interest expense		(5)	
Exchange loss–net	**(149)**	(148)	**(1,263)**
Gain on sales of property, plant and equipment	**55**	114	**466**
Loss on disposals of property, plant and equipment	**(136)**	(382)	**(1,152)**
Loss on impairment of long-lived assets (Note 6)		(102)	
Other–net	**249**	236	**2,110**
Other income (expenses)–net	**410**	(68)	**3,475**
Income before income taxes and minority interests	**10,854**	8,040	**91,983**
Income taxes (Note 10):			
Current	**4,145**	2,762	**35,127**
Deferred	**(426)**	37	**(3,610)**
Total	**3,719**	2,799	**31,517**
Income before minority interests	**7,135**	5,241	**60,466**
Minority interests in net income	**122**	89	**1,034**
Net income	**¥ 7,013**	¥ 5,152	**$ 59,432**

	Yen		U.S. dollars (Note 1)
Per share of common stock (Notes 2.q, 8 and 16):			
Basic net income	**¥131.09**	¥95.60	**$1.11**
Diluted net income	**130.73**	95.38	**1.11**
Cash dividends applicable to the year	**32.00**	21.00	**0.27**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2007 and 2006

	Thousands	Millions of yen								
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gain/loss on available-for-sale securities	Foreign currency translation adjustments	Treasury stock – at cost	Total	Minority interests	Total equity
Balance, February 28, 2005	53,274	¥12,722	¥13,877	¥23,675	¥500	¥(2,131)	¥(889)	¥47,754		¥47,754
Net income				5,152				5,152		5,152
Cash dividends, ¥21.0 per share				(906)				(906)		(906)
Bonuses to directors and corporate auditors				(37)				(37)		(37)
Adjustment of retained earnings for newly consolidated subsidiaries				149				149		149
Net increase in unrealized gain on available-for-sale securities					432			432		432
Net increase in foreign currency translation adjustments						1,644		1,644		1,644
Purchase of treasury stock	(68)						(96)	(96)		(96)
Disposal of treasury stock	237		32				171	203		203
Balance, February 28, 2006	53,443	¥12,722	¥13,909	¥28,033	¥932	¥ (487)	¥(814)	¥54,295		¥54,295
Reclassified balances as of February 28, 2006 (Note 2.j)									¥367	367
Net income				7,013				7,013		7,013
Cash dividends, ¥32.0 per share				(1,390)				(1,390)		(1,390)
Bonuses to directors and corporate auditors				(51)				(51)		(51)
Net decrease in unrealized gain on available-for-sale securities					(15)			(15)		(15)
Net increase in foreign currency translation adjustments						974		974		974
Purchase of treasury stock	(33)						(74)	(74)		(74)
Disposal of treasury stock	142		29				110	139		139
Net change in the year									138	138
Balance, February 28, 2007	53,552	¥12,722	¥13,938	¥33,605	¥917	¥ 487	¥(778)	¥60,891	¥505	¥61,396

	Thousands of U.S. dollars (Note 1)								
	Common stock	Capital surplus	Retained earnings	Unrealized gain/loss on available-for-sale securities	Foreign currency translation adjustments	Treasury stock – at cost	Total	Minority interests	Total equity
Balance, February 28, 2006	$107,813	$117,873	$237,568	$7,898	$(4,127)	$(6,898)	$460,127		$460,127
Reclassified balances as of February 28, 2006 (Note 2.j)								$3,110	3,110
Net income			59,432				59,432		59,432
Cash dividends, $0.27 per share			(11,780)				(11,780)		(11,780)
Bonuses to directors and corporate auditors			(432)				(432)		(432)
Net decrease in unrealized gain on available-for-sale securities				(127)			(127)		(127)
Net increase in foreign currency translation adjustments					8,254		8,254		8,254
Purchase of treasury stock						(627)	(627)		(627)
Disposal of treasury stock		246				932	1,178		1,178
Net change in the year								1,170	1,170
Balance, February 28, 2007	$107,813	$118,119	$284,788	$7,771	$ 4,127	$(6,593)	$516,025	$4,280	$520,305

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Operating activities:			
Income before income taxes and minority interests	**¥10,854**	¥ 8,040	**$ 91,983**
Adjustments for:			
Income taxes – paid	**(3,172)**	(2,986)	**(26,881)**
Depreciation and amortization	**2,920**	2,791	**24,746**
Loss on impairment of long-lived assets		102	
Provision for (reversal of) doubtful receivables	**12**	(136)	**102**
Provision for retirement benefits	**1**	11	**8**
Loss on sales and disposals of property, plant and equipment	**80**	256	**678**
Changes in assets and liabilities:			
Decrease (increase) in trade receivables	**438**	(1,541)	**3,712**
Increase in inventories	**(742)**	(199)	**(6,288)**
Increase (decrease) in trade payables	**713**	(1,593)	**6,042**
Other–net	**(393)**	(151)	**(3,331)**
Total adjustments	**(143)**	(3,446)	**(1,212)**
Net cash provided by operating activities	**10,711**	4,594	**90,771**
Investing activities:			
Purchases of property, plant and equipment	**(2,748)**	(3,388)	**(23,288)**
Proceeds from sales of property, plant and equipment	**78**	147	**661**
Purchases of marketable and investment securities	**(252)**	(7)	**(2,136)**
Proceeds from sales of marketable and investment securities	**218**	141	**1,847**
Payments for loans receivable	**(18)**	(3)	**(153)**
Collection of loans receivable	**19**	14	**161**
Other–net	**(466)**	(523)	**(3,948)**
Net cash used in investing activities	**(3,169)**	(3,619)	**(26,856)**
Financing activities:			
Decrease in short-term bank loans–net		(56)	
Repayments of long-term debt		(11)	
Dividends paid to shareholders	**(1,390)**	(906)	**(11,779)**
Dividends paid to minority shareholder of consolidated subsidiaries	**(6)**		**(51)**
Payments for purchase of treasury stock	**(74)**	(96)	**(627)**
Disposal of treasury stock	**139**	203	**1,178**
Net cash used in financing activities	**(1,331)**	(866)	**(11,279)**
Foreign currency translation adjustments on cash and cash equivalents	**561**	655	**4,754**
Net increase in cash and cash equivalents	**6,772**	764	**57,390**
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year		121	
Cash and cash equivalents at beginning of year	**14,424**	13,539	**122,237**
Cash and cash equivalents at end of year	**¥21,196**	¥14,424	**$179,627**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Star Micronics Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2007 and 2006

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the accounts maintained by Star Micronics Co., Ltd. (the "Company") and its consolidated subsidiaries (the "Companies") in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

On December 27, 2005, the Accounting Standards Board of Japan ("ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The statement of shareholders' equity, which was previously voluntarily prepared in line with international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the Consolidated Statements of Changes in Equity" beginning in the current fiscal year.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside of Japan.

Certain reclassifications have been made in the 2006 consolidated financial statements to conform to the classifications used in 2007.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside of Japan and have been made at the rate of ¥118 to $1, the approximate rate of exchange at February 28, 2007. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation and Investments in Unconsolidated Subsidiaries and Associated Companies

The accompanying consolidated financial statements as of February 28, 2007 include the accounts of the Company and its 20 significant subsidiaries (together, the "Group").

Under the control or influence concept, a company in which the parent company, directly or indirectly, is able to exercise control over operations is fully consolidated, and another company over which the Group has the ability to exercise significant influence is accounted for by the equity method.

The fiscal periods of consolidated subsidiaries in Japan end at the end of February, and those of consolidated subsidiaries outside of Japan end on December 31. Significant transactions that occur for the period from January 1 to the end of February are reflected in the accompanying consolidated financial statements.

Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

The excess of cost of investments in consolidated subsidiaries over the fair value of the net assets of the acquired subsidiary at the dates of acquisition is being amortized mainly over 10 years.

All significant intercompany accounts and transactions have been eliminated in consolidation. All material unrealized profits resulting from intercompany transactions were eliminated.

Investments in unconsolidated subsidiaries and associated companies are accounted for on a cost basis. The effect on the consolidated financial statements of not applying the equity method is not material.

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposits and investment trusts in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

c. Inventories

Inventories are substantially stated at cost determined by the average method. The inventories held by certain consolidated subsidiaries are generally stated at the lower of cost (first-in, first-out) or market.

d. Marketable and Investment Securities

All securities are classified as available-for-sale securities.

Marketable securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed by the declining-balance method for the Company and its consolidated subsidiaries in Japan and by the straight-line method for substantially all of the consolidated subsidiaries outside of Japan.

Depreciation is based on the estimated useful lives, ranging from 15 to 47 years for buildings and structures and from 2 to 15 years for machinery and equipment.

f. Long-lived Assets

In August 2002, the Business Accounting Council issued a Statement of Opinion, Accounting for Impairment of Fixed Assets, and in October 2003 the ASBJ issued ASBJ Guidance No. 6, Guidance for Accounting Standard for Impairment of Fixed Assets. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of March 1, 2005. The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. Retirement and Pension Plans

The Company has a non-contributory funded pension plan covering substantially all of its employees. To provide for the payment of retirement benefits and pension plan payment to employees, the Company recorded a reserve equivalent to the amounts recognized as necessary at the end of the period under review based on the estimated retirements benefit obligation and the fair value of the pension plan assets at the fiscal year-end.

Actuarial gain and loss is amortized in the years following the year in which the gain or loss is recognized by the straight-line method within a specific period (14 years), which falls within the average remaining years of service of the eligible employees. Unrecognized prior service cost is amortized in the years in which the gain or loss is recognized by the straight-line method within a specific period (14 years), which falls within the average remaining years of service of the eligible employees.

h. Bonuses to Directors and Corporate Auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders' meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting treatment for bonuses to directors and corporate auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year-end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors in the year ended February 28, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended February 28, 2007 by ¥70 million ($593 thousand).

i. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that do not transfer ownership of the leased property to the lessee are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's consolidated financial statements.

j. Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

k. Research and Development Costs

Research and development costs are charged to income as incurred.

l. Income Taxes

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

m. Appropriations of Retained Earnings

Appropriations of retained earnings at each year-end are reflected in the consolidated financial statements in the period in which shareholders' approval has been obtained.

n. Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

o. Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

p. Derivatives

The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Companies to reduce foreign currency exchange risks. The Companies do not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income.

The foreign exchange forward contracts employed to hedge foreign exchange exposures for export sales are measured at the fair value and the unrealized gains/losses are recognized in income.

q. Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised. Diluted net income per share of common stock assumes full conversion of the outstanding stock acquisition rights at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense and net of tax.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

r. New Accounting Pronouncements

Measurement of Inventories

Under generally accepted accounting principles in Japan ("Japanese GAAP"), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting

On March 31, 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions”, which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the lessee’s financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements”. The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at February 28, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Current:			
Corporate and other bonds		¥ 21	
Total		¥ 21	
Non-current:			
Equity securities	**¥3,216**	¥3,210	**$27,254**
Corporate and other bonds	**193**	83	**1,636**
Trust fund investment and other	**65**	70	**551**
Total	**¥3,474**	¥3,363	**$29,441**

Information regarding the category of securities classified as available-for-sale at February 28, 2007 and 2006, was as follows:

	Millions of yen			
2007	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**¥1,568**	**¥1,507**		**¥3,075**
Corporate and other bonds	**193**			**193**
Trust fund investments and other	**50**	**15**		**65**

	Millions of yen			
2006	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	¥1,590	¥1,523		¥3,113
Corporate and other bonds	101	3		104
Trust fund investments and other	50	20		70

	Thousands of U.S. dollars (Note 1)			
2007	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale				
Marketable equity securities	**$13,288**	**$12,771**		**$26,059**
Corporate and other bonds	**1,636**			**1,636**
Trust fund investments and other	**424**	**127**		**551**

Available-for-sale securities whose fair value is not readily determinable as of February 28, 2007 and 2006, were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Available-for-sale:			
Equity securities	**¥141**	¥97	**$1,195**
Total	**¥141**	¥97	**$1,195**

Proceeds from sales of available-for-sale securities for the years ended February 28, 2007 and 2006, were ¥218 million ($1,847 thousand) and ¥141 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, for the year ended February 28, 2007 were ¥73 million ($619 thousand), and for the year ended February 28, 2006 were ¥23 million.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at February 28, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Due within one year		¥ 21	
Due after one year through five years	**¥193**	83	**$1,636**
Total	**¥193**	¥104	**$1,636**

4. SHORT-TERM INVESTMENTS

Short-term investments at February 28, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Deposits over 3-month period	**¥ 540**	¥ 732	**$ 4,576**
Other	**699**	400	**5,924**
Total	**¥1,239**	¥1,132	**$10,500**

5. INVENTORIES

Inventories at February 28, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Merchandise	**¥ 260**	¥ 204	**$ 2,204**
Finished products	**7,346**	6,719	**62,254**
Work in process	**2,886**	2,454	**24,458**
Raw materials and supplies	**2,038**	2,115	**17,271**
Total	**¥12,530**	¥11,492	**$106,187**

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended February 28, 2006, and, as a result, recognized an impairment loss of ¥102 million as other expenses for certain unutilized land due to a decline in the value of the land, and the carrying amount of the relevant land was written down to the recoverable amount.

The recoverable amount of that land was measured at its net selling price determined by a quotation from a third-party vendor.

During the fiscal year ended February 28, 2007, the Companies performed the impairment review, and no impairment loss has been recognized.

7. RETIREMENT AND PENSION PLANS

The Company and certain of its consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors. Under the pension plans, employees terminating their employment are, in most circumstances, entitled to pension payments.

The liability for employees' retirement benefits at February 28, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Projected benefit obligation	**¥(7,861)**	¥(7,606)	**$(66,619)**
Fair value of plan assets	**9,265**	8,662	**78,517**
Unrecognized actuarial loss	**(627)**	(357)	**(5,313)**
Unrecognized past service cost	**(246)**	(266)	**(2,085)**
Net amount recognized	**¥ 531**	¥ 433	**$ 4,500**
Amounts recognized in the balance sheets consist of:			
Prepaid pension expense	**¥ 555**	¥ 456	**$ 4,703**
Liability for retirement benefits	**(24)**	(23)	**(203)**
Net amount recognized	**¥ 531**	¥ 433	**$ 4,500**

The components of net periodic benefit costs for the year ended February 28, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Service cost	**¥ 380**	¥ 365	**$ 3,220**
Interest cost	**152**	149	**1,288**
Expected return on plan assets	**(217)**	(175)	**(1,839)**
Recognized net actuarial loss	**4**	79	**34**
Amortization of prior service cost	**(20)**	(17)	**(169)**
Net periodic benefit costs	**¥ 299**	¥ 401	**$ 2,534**

Assumptions used for the year ended February 28, 2007 and 2006 were set forth as follows:

	2007	2006
Discount rate	**2%**	2%
Expected rate of return on plan assets	**2.5%**	2.5%
Recognition period of actuarial gain/loss	**14 years**	14 years
Amortization period of prior service cost	**14 years**	14 years

The liability for retirement benefits at February 28, 2007 and 2006 for directors and corporate auditors is ¥231 million ($1,958 thousand) and ¥247 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

8. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting, if companies meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation. The Board of Directors of such company may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the Articles of Incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

9. STOCK OPTION

The stock option outstanding as of February 28, 2007 is as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2002 Stock Option	10 directors 19 employees 12 directors of subsidiaries	157,000 shares	June 14, 2002	¥1,020	From May 24, 2004 To May 23, 2008
2003 Stock Option	9 directors 16 employees 13 directors of subsidiaries	146,000 shares	July 1, 2003	¥ 725	From May 23, 2005 To May 22, 2009
2004 Stock Option	8 directors 18 employees 13 directors of subsidiaries	140,000 shares	July 20, 2004	¥ 967	From May 28, 2006 To May 27, 2010
2005 Stock Option	8 directors 15 employees 16 directors of subsidiaries	140,000 shares	June 20, 2005	¥1,142	From May 27, 2007 To May 26, 2011

The stock option activity is as follows:

	Shares			
	2002 Stock Option	2003 Stock Option	2004 Stock Option	2005 Stock Option
For the year ended February 28, 2006				
Non-vested				
February 28, 2005 – Outstanding		146,000	140,000	140,000
Granted				
Canceled				
Vested		146,000		
February 28, 2006 – Outstanding			140,000	140,000
Vested				
February 28, 2005 – Outstanding	157,000			
Vested		146,000		
Exercised	104,000	130,000		
Canceled				
February 28, 2006 – Outstanding	53,000	16,000		
For the year ended February 28, 2007				
Non-vested				
February 28, 2006 – Outstanding			140,000	140,000
Granted				
Canceled				
Vested			140,000	
February 28, 2007 – Outstanding				140,000
Vested				
February 28, 2006 – Outstanding	53,000	16,000		
Vested			140,000	
Exercised	43,000	9,000	89,000	
Canceled				
February 28, 2007 – Outstanding	10,000	7,000	51,000	
Exercise price	¥1,020	¥ 725	¥ 967	¥1,142
Average stock price at exercise	¥2,380	¥2,269	¥2,233	

10. INCOME TAXES

The Company and its consolidated subsidiaries in Japan are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40% for the years ended February 28, 2007 and 2006, respectively.

Consolidated subsidiaries outside of Japan are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at February 28, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Current:			
Deferred tax assets			
Unrealized profit on inventories	**¥1,305**	¥ 945	**$11,059**
Accrued bonuses	**408**	370	**3,458**
Inventories	**212**	155	**1,797**
Accrued business taxes	**167**	100	**1,415**
Allowance for doubtful receivables	**22**	25	**186**
Other	**275**	155	**2,331**
Total deferred tax assets	**¥2,389**	¥1,750	**$20,246**
Deferred tax liabilities			
Undistributed earnings of associated companies	**¥ 169**	¥ 109	**$ 1,432**
Tax-deductible inventories losses	**44**	33	**373**
Other	**70**	51	**594**
Total deferred tax liabilities	**¥ 283**	¥ 193	**$ 2,399**
Net deferred tax assets	**¥2,106**	¥1,557	**$17,847**
Non-current:			
Deferred tax assets			
Write-down of investment securities	**¥ 157**	¥ 157	**$ 1,330**
Depreciation	**126**	103	**1,068**
Retirement benefits for directors and corporate auditors	**92**	98	**780**
Other	**215**	229	**1,822**
Less valuation allowance	**(303)**	(211)	**(2,568)**
Total deferred tax assets	**¥ 287**	¥ 376	**$ 2,432**
Deferred tax liabilities			
Unrealized gain on available-for-sale securities	**¥ 605**	¥ 615	**$ 5,127**
Prepaid pension expense	**220**	181	**1,865**
Property, plant and equipment	**30**	32	**254**
Other	**40**	35	**339**
Total deferred tax liabilities	**¥ 895**	¥ 863	**$ 7,585**
Net deferred tax liabilities	**¥ (608)**	¥ (487)	**$ (5,153)**

A reconciliation between the normal effective statutory tax rate for the year ended February 28, 2007 and 2006 and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2007	2006
Normal effective statutory tax rate	**39.8%**	39.8%
Effect of foreign tax rate differences	**(2.9)**	(4.3)
Tax credit for research and development costs	**(1.6)**	(2.3)
Amortization of excess cost of investments in consolidated subsidiaries		1.0
Other	**(1.0)**	0.6
Actual effective tax rate	**34.3%**	34.8%

11. RELATED PARTY TRANSACTIONS

The balances due to or from Citizen Watch Co., Ltd., which owned 16.5% of voting shares of the Company at February 28, 2006, and related transactions for the years ended were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
(1) Citizen Watch Co., Ltd.			
Transaction:			
Sales		¥1,565	
Balance at year-end:			
Trade accounts receivable		546	

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,145 million ($18,178 thousand) and ¥2,192 million for the years ended February 28, 2007 and 2006, respectively.

13. LEASES

The Company and its consolidated subsidiaries lease certain machinery, computer equipment, office space and other assets.

Lease payments under financial leases were ¥49 million ($415 thousand) and ¥52 million for the years ended February 28, 2007 and 2006, respectively.

Pro forma information of leased property of which ownership was deemed not to be transferred to the lessee on an "as if capitalized" basis at February 28, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Acquisition cost	**¥246**	¥255	**$2,085**
Accumulated depreciation	**148**	128	**1,254**
Net leased property	**¥ 98**	¥127	**$ 831**

The pro forma depreciation expenses computed by the straight-line method were ¥49 million ($415 thousand) and ¥52 million for the years ended February 28, 2007 and 2006, respectively.

Obligations under financial leases at February 28, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Due within one year	**¥38**	¥ 46	**$322**
Due after one year	**60**	81	**509**
Total	**¥98**	¥127	**$831**

The pro forma information above does not exclude the imputed interest portion because the remaining financial lease obligations are not material compared with the book values of property, plant and equipment.

Obligations under non-cancelable operating leases at February 28, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Due within one year	**¥ 64**	¥ 94	**$ 543**
Due after one year	**424**	426	**3,593**
Total	**¥488**	¥520	**$4,136**

14. DERIVATIVES

The Company enters into derivative financial instruments ("derivatives"), including foreign currency forward contracts, currency swaps and currency options to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies in the normal course of business.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract. Because the counterparties to those derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

After discussion with the relevant sections, control of derivatives is primarily the responsibility of the Finance Department. Each derivative transaction is periodically reported to the management.

Fair Value of Derivative Financial Instruments:

The fair values of the Companies' derivative financial instruments at February 28, 2007 and 2006 were as follows:

	Millions of yen					
	2007			2006		
	Contracted amount	Fair value	Unrealized gain/loss	Contracted amount	Fair value	Unrealized gain/loss
Foreign currency forward contracts:						
Receivables:	**¥5,485**	**¥5,528**	**¥(43)**	¥4,131	¥4,154	¥(23)
Payables:	**958**	**942**	**(16)**	870	850	(20)
Total			**¥(59)**			¥(43)

	Thousands of U.S. dollars (Note 1)		
	2007		
	Contracted amount	Fair value	Unrealized gain/loss
Foreign currency forward contracts:			
Receivables:	**$46,483**	**$46,847**	**$(364)**
Payables:	**8,119**	**7,983**	**(136)**
Total			**$(500)**

15. CONTINGENT LIABILITIES

As of February 28, 2007 and 2006, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Guarantees of bank loans	**¥68**		**$576**

16. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share (EPS) for the years ended February 28, 2007 and 2006 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars (Note 1)
	Net income	Weighted average shares	EPS	
For the year ended February 28, 2007				
Basic EPS				
Net income available to common shareholders	**¥7,013**	**53,496**	**¥131.09**	**$1.11**
Effect of dilutive securities				
Stock acquisition rights		**144**		
Diluted EPS				
Net income for computation	**¥7,013**	**53,640**	**¥130.73**	**$1.11**
For the year ended February 28, 2006				
Basic EPS				
Net income available to common shareholders	¥5,101	53,353	¥ 95.60	$0.82
Effect of dilutive securities				
Stock acquisition rights		126		
Diluted EPS				
Net income for computation	¥5,101	53,479	¥ 95.38	$0.82

17. SEGMENT INFORMATION

Information regarding industry segments, geographical segments and sales to foreign customers of the Company and its consolidated subsidiaries for the years ended February 28, 2007 and 2006 was as follows:

(1) Industry Segments

	Millions of yen					
2007	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**¥15,608**	**¥ 9,826**	**¥32,479**	**¥4,757**		**¥62,670**
Intersegment sales						
Total sales	**15,608**	**9,826**	**32,479**	**4,757**		**62,670**
Operating expenses	**12,912**	**9,389**	**24,052**	**3,517**	**¥ 2,356**	**52,226**
Operating income	**¥ 2,696**	**¥ 437**	**¥ 8,427**	**¥1,240**	**¥ (2,356)**	**¥10,444**
Total assets	**¥15,587**	**¥10,328**	**¥29,680**	**¥5,550**	**¥15,050**	**¥76,195**
Depreciation and amortization	**593**	**1,003**	**643**	**355**	**114**	**2,708**
Capital expenditures	**484**	**974**	**1,033**	**349**	**68**	**2,908**

	Millions of yen					
2006	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	¥12,599	¥10,995	¥26,673	¥4,521		¥54,788
Intersegment sales						
Total sales	12,599	10,995	26,673	4,521		54,788
Operating expenses	11,362	9,655	20,119	3,414	¥ 2,130	46,680
Operating income	¥ 1,237	¥ 1,340	¥ 6,554	¥1,107	¥ (2,130)	¥ 8,108
Total assets	¥13,935	¥10,450	¥23,838	¥5,490	¥13,113	¥66,826
Depreciation and amortization	642	944	505	360	128	2,579
Capital expenditures	655	758	2,021	329	29	3,792

	Thousands of U.S. dollars (Note 1)					
2007	Special Products	Components	Machine Tools	Precision Products	Eliminations or Corporate	Consolidated
Sales to customers	**$132,271**	**$83,271**	**$275,246**	**$40,314**		**$531,102**
Intersegment sales						
Total sales	**132,271**	**83,271**	**275,246**	**40,314**		**531,102**
Operating expenses	**109,424**	**79,568**	**203,831**	**29,805**	**$ 19,966**	**442,594**
Operating income	**$ 22,847**	**$ 3,703**	**$ 71,415**	**$10,509**	**$ (19,966)**	**$ 88,508**
Total assets	**$132,093**	**$87,525**	**$251,526**	**$47,034**	**$127,542**	**$645,720**
Depreciation and amortization	**5,025**	**8,500**	**5,449**	**3,009**	**966**	**22,949**
Capital expenditures	**4,102**	**8,254**	**8,754**	**2,958**	**576**	**24,644**

* The segments consist of the following products:

Special Products: Computer printers, POS printers, Visual cards, Readers/Writers, etc.

Components: Electronic buzzers, Microphones, Speakers, Receivers, etc.

Machine Tools: CNC automatic lathes, etc.

Precision Products: Wristwatch parts, Optical connector parts, Automotive parts, Medical parts, etc.

* Operating expenses in the eliminations or corporate column include general corporate expenses incurred by the Administration Headquarters of the Company. The amounts were ¥2,356 million ($19,966 thousand) and ¥2,130 million for the years ended February 28, 2007 and 2006, respectively.

* Assets in the eliminations or corporate column include assets maintained by the Administration Headquarters of the Company, and consist principally of excess funds under management (cash and marketable securities) and long-term investments (investment securities). The amounts were ¥15,050 million ($127,542 thousand) and ¥13,113 million at February 28, 2007 and 2006, respectively.

(2) Geographical Segments

2007	Millions of yen					
	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Sales to customers	**¥20,339**	**¥18,511**	**¥13,527**	**¥10,293**		**¥62,670**
Inter-area transfers	**30,084**	**48**	**25**	**13,074**	**¥(43,231)**	
Total	**50,423**	**18,559**	**13,552**	**23,367**	**(43,231)**	**62,670**
Operating expenses	**41,298**	**15,630**	**12,055**	**23,018**	**(39,775)**	**52,226**
Operating income	**¥ 9,125**	**¥ 2,929**	**¥ 1,497**	**¥ 349**	**¥ (3,456)**	**¥10,444**
Assets	**¥59,346**	**¥14,567**	**¥ 9,737**	**¥17,824**	**¥(25,279)**	**¥76,195**

2006	Millions of yen					
	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Sales to customers	¥20,550	¥12,875	¥12,282	¥ 9,081		¥54,788
Inter-area transfers	24,135	22	74	12,109	¥(36,340)	
Total	44,685	12,897	12,356	21,190	(36,340)	54,788
Operating expenses	37,813	11,208	11,161	20,429	(33,931)	46,680
Operating income	¥ 6,872	¥ 1,689	¥ 1,195	¥ 761	¥ (2,409)	¥ 8,108
Assets	¥53,804	¥ 9,811	¥ 8,474	¥17,783	¥(23,046)	¥66,826

2007	Thousands of U.S. dollars (Note 1)					
	Japan	Europe	North America	Asia	Eliminations or Corporate	Consolidated
Sales:						
Sales to customers	**$172,364**	**$156,873**	**$114,636**	**$ 87,229**		**$531,102**
Inter-area transfers	**254,950**	**407**	**211**	**110,796**	**$(366,364)**	
Total	**427,314**	**157,280**	**114,847**	**198,025**	**(366,364)**	**531,102**
Operating expenses	**349,984**	**132,458**	**102,161**	**195,067**	**(337,076)**	**442,594**
Operating income	**$ 77,330**	**$ 24,822**	**$ 12,686**	**$ 2,958**	**$ (29,288)**	**$ 88,508**
Assets	**$502,932**	**$123,449**	**$ 82,517**	**$151,051**	**$(214,229)**	**$645,720**

* The segments consist of the following countries:

Europe: United Kingdom, Germany, France and Switzerland
North America: United States of America
Asia: China and Thailand

* Operating expenses in the eliminations or corporate column include general corporate expenses incurred by the Administration Headquarters of the Company. The amounts were ¥2,356 million ($19,966 thousand) and ¥2,130 million for the years ended February 28, 2007 and 2006, respectively.

* Assets in the eliminations or corporate column include assets maintained by the Administration Headquarters of the Company, and consist principally of excess funds under management (cash and marketable securities) and long-term investments (investment securities). The amounts were ¥15,050 million ($127,542 thousand) and ¥13,113 million at February 28, 2007 and 2006, respectively.

(3) Sales to Foreign Customers

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Europe	**¥20,174**	¥15,724	**$170,966**
North America	**13,620**	12,694	**115,424**
Asia	**16,509**	14,525	**139,907**
Total	**¥50,303**	¥42,943	**$426,297**

* The segments consist of the following countries:

Europe: United Kingdom, Germany, Switzerland, Finland, Hungary, etc.

North America: United States of America, Mexico, etc.

Asia: China, Republic of Korea, Taiwan, Singapore, Thailand, Australia, etc.

18. SUBSEQUENT EVENT

The following appropriation of retained earnings at February 28, 2007 was approved at the Company's shareholders' meeting held on May 24, 2007:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends, ¥18 ($0.153) per share	**¥964**	**$8,169**

Deloitte.

Deloitte Touche Tohmatsu
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Star Micronics Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Star Micronics Co., Ltd. and consolidated subsidiaries (together, the "Group") as of February 28, 2007 and 2006, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Star Micronics Co., Ltd. and consolidated subsidiaries as of February 28, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

May 24, 2007.

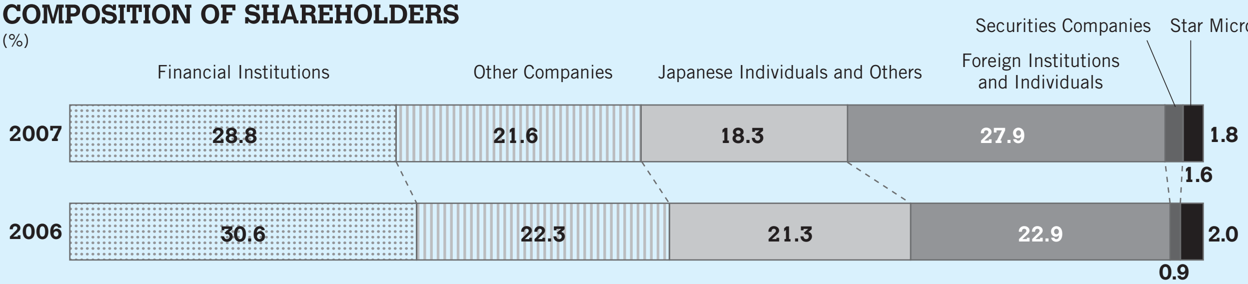
STOCK INFORMATION
as of February 28, 2007

Common Stock	Authorized	158,000,000
	Issued	54,533,234
Paid-in Capital		12,721,939,515 yen
Number of Shareholders		5,777

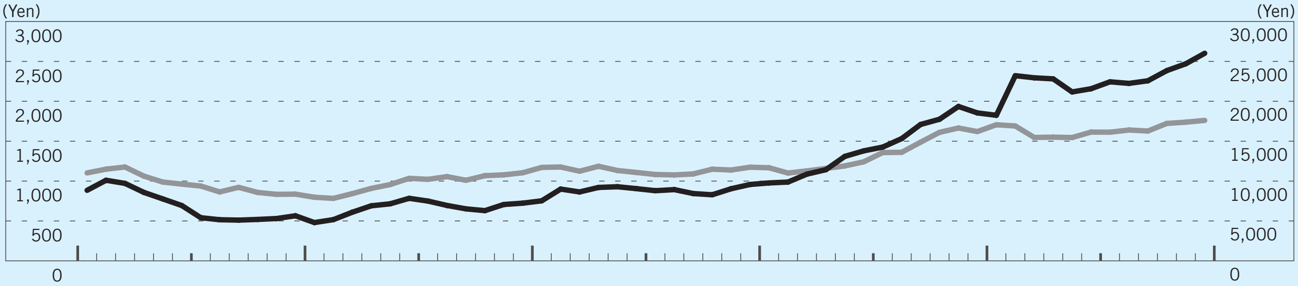
Stock Listing
First Section of the Tokyo Stock Exchange

Transfer Agent
Tokyo Securities Transfer Agent Co., Ltd.
1-4-2 Marunouchi, Chiyoda-ku,
Tokyo 100-0005, Japan

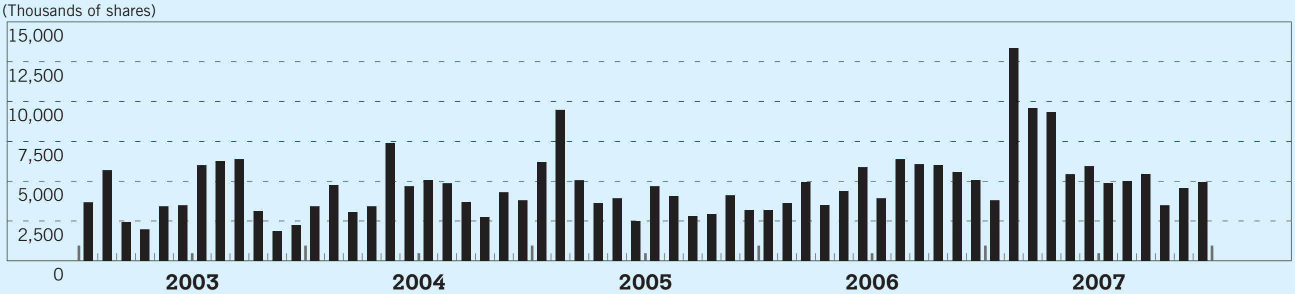
COMPOSITION OF SHAREHOLDERS
(%)



STOCK PRICE RANGE (TOKYO STOCK EXCHANGE)



TRADING VOLUME
(Thousands of shares)



(Fiscal years ended February 28 and 29)

Notes: 1. This trading volume shows the monthly volume of trade on the Tokyo Stock Exchange. Each fiscal year starts in March and ends in February.
2. Stock prices of Star Micronics and the Nikkei Stock Average are based on a simple average of daily closing prices for each day of every month at the Tokyo Stock Exchange.

STOCK PRICE
(Yen)

(Years ended February)

Year	2003	2004	2005	2006	2007
At year-end	536	723	981	1,801	2,540
High	1,120	830	1,030	2,090	2,710
Low	420	418	704	941	1,691

CORPORATE DATA

DIRECTORS AND AUDITORS

President and CEO	Toshihiro Suzuki
Senior Managing Director	Hajime Sato
Managing Director	Tomohiko Okitsu
Directors	Chiaki Fushimi Satomi Jojima Hiroshi Tanaka Takashi Kuramae
Corporate Auditors	Hiroyuki Sawada Katsuji Ito Osamu Yamada

(as of May 24, 2007)

CORPORATE DATA

Corporate Name	Star Micronics Co., Ltd.
Head Office	20-10 Nakayoshida, Suruga-ku, Shizuoka 422-8654, Japan Tel. +81-54-263-1111 Fax. +81-54-263-1057
Established	July 6, 1950

GROUP NETWORK

Overseas Subsidiaries

Star Micronics America, Inc. (SMA)	1150 King Georges Post Road, Edison, NJ 08837, USA Tel. +1-732-623-5500
Star Micronics Asia Ltd. (SMH)	19/F., Enterprise Square II, 3 Sheung Yuet Road, Kowloon Bay, Hong Kong Tel. +852-2796-2727
Star Micronics Europe Ltd. (SME)	Star House, Peregrine Business Park, Gomm Road, High Wycombe, Bucks, HP13 7DL, UK Tel. +44-1494-471111
Star Precisions Ltd.	18/F., Enterprise Square II, 3 Sheung Yuet Road, Kowloon Bay, Hong Kong Tel. +852-2799-9141
Star Micronics Manufacturing Dalian Co., Ltd.	2, Huang Hai Street, Dalian Economic and Technical Development Zone, Dalian, PRC Tel. +86-411-87611535
Star Micronics AG (SMAG)	Lauetstrasse 3 CH-8112 Otelfingen, Zurich, Switzerland Tel. +41-43-411-6060
Star Micronics GB Ltd. (SMGB)	Chapel Street, Melbourne, Derbyshire, DE74 8JF, UK Tel. +44-1332-864455
Star Micronics GmbH (SMGH)	Untere Reute 44, 75305 Neuenburg, Germany Tel. +49-7082-7920-0
Star CNC Machine Tool Corporation (SMTC)	123 Powerhouse Road, Roslyn Heights, NY 11577, USA Tel. +1-516-484-0500
Star America Holding, Inc. (SAH)	Suite 100, 30 Old Rudnick Lane, Dover, DE 19901, USA
Shanghai S&E Precision Co., Ltd.	1-39, East Kangqiao Road, Kangqiao Industrial Zone, Pudong, Shanghai, PRC Tel. +86-21-68130222
Star Machine Tool France SAS (SMTF)	55 Avenue du Mont Blanc, F-74950 Scionzier, France Tel. +33-450-96-05-97
Shanghai Xingang Machinery Co., Ltd.	229 Fute Road (N), Waigaoqiao Free Trade Zone, Shanghai 200131, PRC Tel. +86-21-58682100
Star Micronics (Thailand) Co., Ltd. (SMTL)	49/30 Moo 4 Soi Kingkaew 30, Kingkaew Rd., T.Rachathewa A.Bangplee, Samutprakarn 10540, Thailand Tel. +66-2-750-4083
S&K Precision Technologies (Thailand) Co., Ltd.*	42 Moo 4, Tambol Banchang, Amphur U-Thai, Phra Nakorn Sri Ayutthaya, Thailand

Japanese Subsidiaries

Micro Takemi Company	13-32 Takemi, Aoi-ku, Shizuoka 420-0934 Tel. +81-54-247-6533
Toshin Seiki Company	1500-35 Kitanoya, Misawa, Kikugawa, Shizuoka 439-0023 Tel. +81-537-35-6415
Micro Sapporo Company	3-705-2 Shinkouminami, Ishikari, Hokkaido 061-3244 Tel. +81-133-64-3663
Micro Fujimi Company	20-10 Nakayoshida, Suruga-ku, Shizuoka 422-8654 Tel. +81-54-263-1523
OS Metal Company	1500-133 Kitanoya, Misawa, Kikugawa, Shizuoka 439-0023 Tel. +81-537-35-0026
Micro Kikugawa Company	1500-133 Kitanoya, Misawa, Kikugawa, Shizuoka 439-0023 Tel. +81-537-37-2000

* Scheduled to become a consolidated subsidiary from fiscal 2008

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