

## **Operating Results and Financial Position**

### **Performance Highlights for the First Half of Fiscal 2005**

During the first half of fiscal 2005, the Japanese economy performed well, showing signs of a moderate recovery including improvement in corporate earnings, an accompanying increase in private-sector capital expenditures, and signs of improvement in consumer spending. Overseas, the US economy remained strong while the economies of Europe headed toward a recovery led by external demand. Asian economies also expanded, with China recording especially strong growth.

The overall market environment for Casio's businesses continued to improve, driven by growth in new products, typically home electrical appliances (digital cameras, cellular phones, LCD TVs, and DVDs).

In this environment, the Casio Group has been strongly promoting and developing its strategic businesses, such as timepieces, digital cameras, electronic dictionaries, cellular phones, and TFT LCDs, in pursuit of management targets. At the same time, the company has been focusing on realizing greater management efficiency, including raising operating income margins and improving capital efficiency.

As a result, consolidated net sales grew 17.0% year-on-year to ¥281.4 billion in the first half of fiscal 2005, primarily driven by growth in strategic businesses.

Reporting on results by segment, sales in the Electronics segment were ¥220.7 billion, up 19.3% year-on-year. In the Consumer category, Exilim digital cameras continued to perform well and won strong support as a leading brand in the digital camera market, for creating the genre of credit card-sized cameras, featuring large LCD monitors, and achieving long battery life. Electronic dictionaries, for which Casio controls an overwhelming share of the market in Japan, also recorded growth as a result of overseas expansion to South Korea and elsewhere. Both digital cameras and electronic dictionaries achieved sales that surpassed initial expectations, which brought sales in this category up 6.8% year-on-year to ¥92.8 billion. The Timepieces category continued its good performance from last year, as the market for solar-powered radio-controlled watches steadily expanded. Operating income improved significantly as a result of changes to the product mix to add emphasis on operating income margins by reducing the ratio of general models and expanding the lineup of high-value-added models. Nevertheless, sales in this category declined 4.4% year-on-year to ¥33.6 billion. In the Mobile Network Solutions (MNS) category, the A5406CA cellular phone, which is equipped with the world's first 3.2-megapixel camera, recorded strong sales. Casio teamed up with Hitachi, Ltd. to establish Casio Hitachi Mobile Communications Co., Ltd. as a joint venture in April 2004 with a view to reducing costs and increasing speed in the development of cellular phones. As a result, sales in this category surged 79.9% year-on-year to ¥69.2 billion. In the System Equipment category, sales rose 2.6% year-on-year to ¥24.9 billion, driven by robust sales of page printers as a result of a transformed business model in the solutions business, which provides customers with the optimal combination of hardware and applications.

In the Electronic Components and Others segment, sales were ¥60.7 billion, up 9.3% year-on-year. Sales in the Electronic Components category rose 5.3% year-on-year to ¥42.9 billion thanks to significant growth in the TFT business, where the company remained the world's top supplier of monitors for digital cameras, and to strong

performances in the film device and bump businesses of Casio Micronics Co., Ltd. Sales in the Others category gained 20.5% year-on-year to ¥17.7 billion.

As a result of efforts to substantially increase added value by enhancing product strength in strategic businesses and to strengthen earning potential by promoting greater management efficiency, the Electronics segment recorded operating income of ¥17.3 billion, up 55.1% year-on-year, and the Electronic Components and Others segment had operating income of ¥5.1 billion, up 58.9% year-on-year. Total consolidated operating income, allowing for elimination or unallocated amount, jumped 61.4% year-on-year to ¥19.5 billion. Ordinary income grew 102.3% year-on-year to ¥17.0 billion as a result of measures to strengthen the company's financial structure, including improving net financial expenses. Net income rose 79.9% year-on-year to ¥9.0 billion.

### **Financial Position**

Net cash provided by operating activities in the first half of fiscal 2005 was ¥30.5 billion in income. The main components of this included ¥14.6 billion in income before income taxes and minority interests, ¥9.8 billion in depreciation expenses, and a ¥4.2 billion increase in working capital due to greater efficiency. Meanwhile, net cash used in investing activities recorded ¥14.0 billion in expenditure. The main components of this were ¥10.4 billion in payments for acquisitions of tangible fixed assets and a ¥4.1 billion increase in intangible fixed assets. Net cash used in financing activities recorded ¥6.3 billion in expenditure. The main components of this included ¥3.9 billion in payments for cash dividends, and a net ¥1.2 billion in expenditures resulting from the acquisition and sale of treasury stock.

As a result, cash and cash equivalents totaled ¥135.3 billion at the end of the first half of fiscal 2005, an increase of ¥12.2 billion over the end of the previous year.

### **Forecast for Fiscal 2005 Business Results**

In terms of the future business environment, although worldwide economic conditions will likely be stable going forward, there are concerns about the impact of higher oil prices on the global economy and other uncertainties, so we expect the situation to remain unpredictable. In this environment, Casio will draw on its core technologies for creating products that are compact, lightweight and energy efficient to continue bolstering its strategic businesses.

Casio will implement the following strategies in its main business segments.

- (a) For digital cameras, the company will push forward in expanding overseas markets, where substantial growth is expected, in addition to the Japanese market by releasing cutting-edge models that combine portability and high performance, including the world's smallest model (79cc) equipped with an optical zoom that uses a ceramic lens, and models featuring a long battery life and large LCD monitors capable of taking about 400 pictures based on CIPA standards.
- (b) For solar-powered radio-controlled watches, the company will promote the conversion to these watches in global markets by releasing ultra-thin models, full metal models, and multi-band models and by expanding the market for women's watches.
- (c) For electronic dictionaries, the company forecasts firm demand, especially in the Japanese student market, and it will strive to become the top brand in global

educational markets by increasing its share in overseas markets, starting with South Korea, Germany, and Spanish-speaking countries.

- (d) For cellular phones, Casio will utilize the strengths of its development joint venture to develop competitive products that apply the latest technological innovations. The company also aims to enhance its earning capacity by reducing development costs and increasing speed through the creation of common platforms and other means.
- (e) For TFT LCDs, in addition to digital camera monitors, for which Casio enjoys an overwhelming market share, the company is continuing its efforts to improve productivity by increasing the share of its LCDs for cellular phones.

Casio is continuing to pursue measures to promote innovative product development, enhance its long-term earning capacity, and strengthen its management and financial structure. The company is also actively implementing a variety of measures in all business segments with a view to improving the long-term health of these businesses, and it is working to achieve earnings growth and strengthen its management structure.

Current results forecasts for fiscal 2005 are as below.

|                   |  |
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| Net sales:        | ¥600.0 billion (up 14.6% year-on-year) |
| Operating income: | ¥42.0 billion (up 52.8% year-on-year)  |
| Ordinary income:  | ¥37.0 billion (up 72.5% year-on-year)  |
| Net income:       | ¥20.0 billion (up 41.1% year-on-year)  |

Exchange rates for the second half of fiscal 2005 are estimated at US\$1 = ¥108 and euro1 = ¥127.

Note: Forecasts for business results are based on information available at the present time, and actual results may differ significantly from forecasts. Key factors affecting actual results may include, but are not limited to, the economic circumstances surrounding the company's business, fluctuations in the exchange rates of major currencies, including the yen-dollar rate, and significant changes in product prices. The following factors may affect actual results.

- (a) Trends in the economic and social conditions as well as laws, regulations and tax systems in major markets in Japan, Europe, the US, Asia and elsewhere.
- (b) Fluctuations in product supply and demand and significant changes in product prices in major markets.
- (c) Rapid changes in technology, the development of products that use new technology and the timing of manufacturing and market introduction.
- (d) Fluctuations in the exchange rates of major currencies, including the yen-dollar rate.