

Operating Results and Financial Position

Performance Highlights for Fiscal 2005

During 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.

Nevertheless, some causes for concern, including a slowdown in exports and a leveling off in private consumption, also emerged during the second half of the year, and there has been some uncertainty about the economic outlook.

Overseas, economic expansion also became more moderate, with growth slowing in the US economy and Asia, including China, all of which had been performing steadily.

The overall market for Casio's businesses improved and continued to be driven by growth in new products, typically consumer digital electronics (digital cameras, cellular phones, LCD TVs, and DVDs). However, some causes for concern over the future, such as inventory adjustment and falling product prices, have emerged as a result of the deterioration in the balance between demand and supply since the beginning of fall.

In this environment, the Casio Group has been strongly promoting and developing its strategic businesses, which are 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 6.8% year-on-year to ¥559.0 billion in fiscal 2005, primarily driven by growth in strategic businesses.

Reporting on results by segment, sales in the Electronics segment were ¥447.8 billion, up 10.4% year-on-year. In the Consumer category, Exilim digital cameras continued their strong performance from the previous year and won strong support as a leading brand in the digital camera market. They were lauded for creating the genre of credit card-sized cameras, featuring large LCD monitors, and achieving long battery life and high quality movie functions. Moreover, 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 5.1% year-on-year to ¥198.5 billion. The Timepieces category continued its good performance from last year, as the market for solar-powered radio-controlled watches steadily expanded, primarily in Japan and North America. Profits improved significantly due to changes to the product mix to emphasize profit ratios by reducing the proportion of regular models and expanding the lineup of high-value-added models. However, sales in the category fell 2.4% year-on-year to ¥68.4 billion. In the Mobile Network Solutions (MNS) category, the A5406CA cellular phone, which is equipped with the world's first 3.2-megapixel camera, and the W21CA WIN model, which features the industry's first 2.6 inch QVGA LCD monitor and "PC site viewer" that can browse web pages for PCs, performed strongly. In addition, Casio established Casio Hitachi Mobile Communications Co., Ltd., with Hitachi, 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 were up 34.4% year-on-year to ¥131.4 billion. In the System

Equipment category, sales rose 1.5% year-on-year to ¥49.4 billion, driven by robust sales of page printers driven by an advanced 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 ¥111.1 billion, down 5.7% year-on-year. In the Electronic Components category, the TFT business expanded, maintaining its top global share of TFTs for digital cameras. However, the category was affected by worldwide inventory adjustments for IT-related products from the beginning of fall, and sales fell 10.0% year-on-year to ¥78.2 billion. Sales in the Others category were up 6.2% year-on-year to ¥32.9 billion.

With 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 ¥36.1 billion, up 43.3% year-on-year, and the Electronic Components and Others segment had operating income of ¥8.6 billion, up 22.6% year-on-year. Total consolidated operating income, allowing for elimination or unallocated amount, jumped 42.0% year-on-year to ¥39.0 billion. Ordinary income grew 56.6% year-on-year to ¥33.5 billion due to measures to strengthen the company's financial structure, including improving net financial expenses. Net income rose 51.9% year-on-year to ¥21.5 billion.

As a result of these efforts, the company achieved record-high sales and income.

Financial Position

Net cash provided by operating activities in fiscal 2005 was ¥64.9 billion in income, an increase of ¥3.1 billion compared to the end of the previous consolidated fiscal year. The main components of this included ¥33.0 billion in income before income taxes and minority interests and ¥22.9 billion in depreciation expenses. Meanwhile, net cash used in investing activities recorded ¥28.8 billion in expenditure, a decrease of ¥13.1 billion compared to the end of the previous consolidated fiscal year. The main components of this were ¥20.0 billion in payments for acquisitions of tangible fixed assets and an ¥8.9 billion increase in intangible fixed assets. Net cash used in financing activities recorded ¥13.5 billion in expenditure, an increase of ¥4.1 billion compared to the end of the previous consolidated fiscal year. The main components of this included ¥11.0 billion in redemption of bonds and ¥3.9 billion in payments for cash dividends.

As a result, cash and cash equivalents totaled ¥147.5 billion at the end of fiscal 2005, an increase of ¥24.4 billion over the end of the previous year.

Forecast for Fiscal 2006 Business Results

While the global economy is expected to remain fairly stable in the future, the outlook for the business environment will nevertheless remain unpredictable due to uncertainties including concerns over the impact of factors such as rising crude oil prices and inventory adjustments in some products on the global economy. In this environment, Casio will draw on its core technologies for creating products that are compact, lightweight, slim 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 hard to achieve growth not only in the Japanese market, but also in overseas markets, where growth is expected in future, with high quality movie models that combine high precision photography with top grade, long video recording capacity.
- (b) For solar-powered radio-controlled watches, the company will expand the lineup of men's and women's models by strengthening the OCEANUS brand and seek to increase its share of the analog market, increasing the proportion of solar-powered radio-controlled watches in its Timepieces business and further improving earning capacity.
- (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, the company will draw on the strengths of its development joint venture with Hitachi, Ltd., amid the full-scale shift to third-generation cellular phones, to develop competitive products adapted to the technological innovations of the future. Casio also aims to increase earning capacity by reducing costs and improving speed in development through means such as the construction of a common platform.
- (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 further improve its management practices.

Current results forecasts for fiscal 2006 are as below.

Net sales:	¥580.0 billion (up 3.8% year-on-year)
Operating income:	¥43.0 billion (up 10.1% year-on-year)
Ordinary income:	¥37.0 billion (up 10.2% year-on-year)
Net income:	¥23.0 billion (up 6.8% year-on-year)

Exchange rates for fiscal 2006 are estimated at US\$1 = ¥103 and Euro 1 = ¥130.

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.

Business Risks

The main risks that may affect the Group's business performance, financial position and share price are described below. The Casio Group endeavors to prevent the occurrence of these risks and to respond when they do occur. Information on risks is current as of the end of the consolidated fiscal year.

- (1) Personal consumption trends in each country of the world
- (2) Sharp price fluctuations in the short term
- (3) Inability to launch popular new products on a timely and regular basis
- (4) Strategy changes, product specification changes, and order cancellations by major customers, and schedule changes to and cancellations of major orders
- (5) Obsolescence of the Group's products due to rapid technological change and radical change of market needs, etc.
- (6) Overseas political and economic conditions and unexpected changes in regulations and applications of legislation
- (7) A view that the Group's potential products or technology infringes the intellectual property rights of another company
- (8) Foreign exchange risk and interest rate risk
- (9) The occurrence of a disaster related to the environment, such as fire or earthquake, or of an accident in operations
- (10) Social unrest due to factors such as war, terrorism or infectious disease