

## Operating Results and Financial Position

### Performance Highlights for the First Half of Fiscal 2006

During the first half of fiscal 2006, the Japanese economy continued in a moderate recovery featuring improvement in corporate earnings, an accompanying increase in private-sector capital expenditures, and steady consumer spending. As a whole, economies overseas generally saw solid expansion, with the US economy continuing to perform well, European economies maintaining steady growth, and China driving continued expansion in Asia.

With adjustments in the manufacture of products in the area of consumer digital electronics (digital cameras, cellular phones, LCD TVs, and DVDs) nearly complete, these products continued to drive growth and the overall market for Casio businesses improved.

In this environment, the Casio Group pursued its management goals by aggressively promoting and developing a strategy designed to heighten the added value of its products and differentiate them from those of other companies in five strategic businesses (timepieces, digital cameras, electronic dictionaries, cellular phones, and TFT LCDs). At the same time, the company focused on realizing greater management efficiency, including efforts to improve capital efficiency and drastically reduce fixed expenses.

Consolidated net sales overall declined by 2.6% year-on-year to ¥274.2 billion. Reporting on results by segment, sales in the Electronics segment were unchanged from the first half of the previous fiscal year, at ¥220.7 billion. In the Consumer category, Exilim digital cameras continued their strong performance from the previous year, both within and outside of Japan, and won strong support as a leading brand in the digital camera market. Lauded for creating the new genre of card-sized cameras as well as for their large LCD monitors and long battery life, Exilim has also introduced high-quality movie functions. Moreover, electronic dictionaries, for which Casio controls an overwhelming share of the market in Japan, also recorded sales higher than initially expected as a result of strong sales of high value-added models (adding pronunciation functions, etc.) and further overseas expansion in South Korea and elsewhere. The Timepieces category continued its positive performance from last year, as the market for solar-powered radio-controlled watches steadily expanded. As a result of 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, profits improved significantly despite the fact that sales figures did not rise. The Mobile Network Solutions (MNS) category saw significant growth in profits, driven by the strong performance of the W31CA WIN model cellular phone with built-in 3.2-megapixel CCD camera and 2.6 inch QVGA wide-screen LCD monitor, and the G'zOne TYPE-R, a collapsible cellular phone with a built-in megapixel camera, which is waterproof and impact resistant. Though the System Equipment category focused on the development of various solutions that provide customers with the optimal combination of hardware and applications, the impact of falling prices for IT-related products resulted in a decrease in sales.

In the Electronic Components and Others segment, sales were ¥53.4 billion, down 12.0% year-on-year. Although sales in the Electronic Components category dropped due to falling unit prices in the TFT LCD business, they essentially met the expectations set out in initial plans. This category is beginning to show positive signs, including expanding demand for LCDs for digital cameras and the acquisition of new clients in the cellular phone industry.

Operating income in the Electronics segment reached ¥18.6 billion, up 7.7% year-on-year, due to efforts to substantially increase added value by enhancing product strength in strategic businesses and to strengthen earning potential by promoting greater management efficiency.

The Electronic Components and Others segment had operating income of ¥4.1 billion, down 20.9% year-on-year. Total consolidated operating income, allowing for elimination or unallocated amount, rose 1.0% year-on-year to ¥19.7 billion, and the operating income margin stood at 7.2%. Ordinary income, at ¥17.7 billion, grew 4.3% year-on-year due to measures to strengthen the company's financial structure, including improving net financial expenses. Net income for the first half of the year rose 13.1% year-on-year to ¥10.2 billion.

### **Financial Position**

Net cash provided by operating activities in the first half of fiscal 2006 was ¥16.5 billion in income. The main components of this included ¥17.2 billion in income before income taxes and minority interests and ¥12.0 billion in depreciation expenses. Meanwhile, net cash used in investing activities recorded ¥15.8 billion in expenditure. The main components of this were ¥8.6 billion in payments for acquisitions of tangible fixed assets and an ¥6.0 billion increase in intangible fixed assets. Net cash used in financing activities recorded ¥40.7 billion in expenditure. The main components of this cash flow included ¥30.0 billion in the redemption of bonds, ¥6.0 billion in the payments for long-term borrowings, and ¥4.5 billion in payments for cash dividends.

As a result, cash and cash equivalents totaled ¥108.8 billion at the end of the first half of fiscal 2006, a decrease of ¥38.7 billion over the end of the previous full year.

### **Forecast for Fiscal 2006 Business Results**

The outlook for the business environment remains unpredictable due to various uncertainties, including concerns over the impact on the global economy of rising crude oil prices. In this environment, Casio will draw on its core technologies for creating products that are compact, lightweight, slim and energy efficient to continue strengthening its strategic businesses.

- (a) For digital cameras, the company will continue to introduce new products that emphasize stylishness and have potential as high-value-added items. At the same time, the company will also push hard to expand its businesses in overseas markets by introducing models in accessible price ranges, expanding market share and improving earning potential.
- (b) For solar-powered radio-controlled watches, the company plans to significantly increase the operating income margin, expanding the reach of this type of watch in the world market by steadily boosting sales of the full-metal OCEANUS models with the introduction of a chronograph model equipped with five motors and the first model for women.
- (c) For electronic dictionaries, the company forecasts continued firm demand and plans to improve the operating income margin by increasing the proportion of models with high value-added to its lineup. Moreover, the company will strive to become the top brand in global educational markets in this business by adding China to its current markets in South Korea, Germany, and Spanish-speaking countries, and working to increase its share in these overseas markets.
- (d) For cellular phones, the company will develop competitive products adapted to the technological innovations of the future to maintain its standing as the top-selling brand at au. 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, the industry as a whole is moving toward recovery in the second half of the fiscal year, and Casio will focus on growth in digital camera monitors, for which the company enjoys an overwhelming market share, by introducing new, cutting-edge

specifications. At the same time, the company is continuing its efforts to improve productivity by increasing the share of its LCDs for cellular phones through expansion of its client base.

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 the second half of 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 first half of the current 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) Risk of data leaks due to unforeseen circumstances
- (9) Foreign exchange risk and interest rate risk
- (10) The occurrence of a disaster related to the environment, such as fire or earthquake, or of an accident in operations
- (11) Social unrest due to factors such as war, terrorism or infectious disease