

Operating Results and Financial Position

Performance Highlights for Fiscal 2006

During fiscal 2006, the Japanese economy experienced an upswing, growing steadily on improved corporate earnings, an accompanying increase in private-sector capital expenditures, and a general rise in consumer spending.

Overseas, the expansion of the US, Chinese, and other Asian economies continued, while Europe showed signs of mild recovery.

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, Casio pursued its management goals by aggressively promoting and developing 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 profit ratios and capital efficiency.

As a result, consolidated net sales for fiscal 2006 expanded 3.8% year-on-year to ¥580.3 billion, primarily driven by growth in strategic businesses, for a fourth consecutive year of growth.

Reporting results by segment, sales in the Electronics segment grew 5.7% year-on-year to ¥473.4 billion. In the Consumer category, stylish Exilim digital cameras continued their strong performance from the previous year as a result of further expansion buoyed by overseas promotions. Sales rose 7.7% year-on-year to ¥213.8 billion. Presented as a “carry all the time, use any time” new-style camera that is slim and fast, the Exilim brand is enjoying strong consumer support. In the Timepieces category, Casio strengthened its lineup of Oceanus watches for men. Oceanus watches enclose the latest technologies, such as solar-powered radio-controlled functionality, in a full metal case that exudes a sense of luxury. For the first time, Casio also introduced a model for women, and developed this aggressively as a brand symbolizing the best of Casio watches. As a result, sales in this category expanded 3.8% to ¥71.0 billion. The Mobile Network Solutions (MNS) category saw growth in sales, driven by the strong performance of such new products as the W31CA WIN model cellular phone with built-in 3.2-megapixel CCD camera and 2.6-inch QVGA wide-screen LCD monitor, the G’zOne TYPE-R, a collapsible cellular phone with a built-in 1.28-megapixel camera that is waterproof and impact resistant, and the latest W41CA, a collapsible, slim profile, 22-mm thin cellular phone that allows ready access to many WIN services. Strong performance by all these new products boosted MNS sales 6.5% year-on-year to ¥139.8 billion. 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 1.7% year-on-year decrease in sales, which recorded ¥48.6 billion. In the Electronic Components and Others segment, sales were ¥106.8 billion, down 3.8% year-on-year. In the Electronic Components category, while sales of chip-on-film (COF), the leading product of Casio Micronics Co., Ltd., were firm and boosted sales for this company, overall sales in the Electronic Components category declined 5.4% year-on-year to ¥73.9 billion due to falling unit prices in the TFT LCD business. In the Others category, sales dipped 0.1% year-on-year to ¥32.9 billion.

Operating income in the Electronics segment reached ¥41.7 billion, up 15.5% 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 ¥7.1 billion, down 17.0% year-on-year. Total consolidated operating income, allowing for elimination or unallocated amounts, rose 10.4% year-on-year to ¥43.1 billion, for a fourth consecutive year of growth. Ordinary income, at ¥38.9 billion, grew 15.9% year-on-year due to measures to strengthen the company's financial structure, including improving net financial expenses. Net income for fiscal 2006 rose 10.3% year-on-year to ¥23.7 billion. As a result of these efforts, Casio has now set new records for both net sales and net income for three consecutive years.

Financial Position

Net cash provided by operating activities in fiscal 2006 was ¥43.8 billion in income. The main components of this included ¥39.6 billion in income before income taxes and minority interests and ¥26.6 billion in depreciation expenses. Meanwhile, net cash used in investing activities recorded ¥29.6 billion in expenditure. The main components of this were ¥19.9 billion in payments for acquisitions of tangible fixed assets and an ¥11.8 billion increase in intangible fixed assets. Net cash used in financing activities recorded ¥39.8 billion in expenditure. The main components of this included ¥30.0 billion in the redemption of bonds, ¥9.6 billion in the payments for long-term borrowings.

As a result, cash and cash equivalents totaled ¥125.2 billion at the end of fiscal 2006, a decrease of ¥22.3 billion over the end of the previous year.

Forecast for Fiscal 2007 Business Results

Casio believes that the business environment going forward will offer conditions conducive to globally stable growth, although conditions remain unpredictable due to various uncertainties, including concerns over the impact on the global economy of rising crude oil prices and inventory adjustments of some products. In this environment, the company will draw on its core technologies for creating products that are compact, lightweight, slim, and energy efficient to continue strengthening its strategic businesses. The following are the strategies for the main business areas.

- (a) For digital cameras, Casio will work to expand its lineup of stylish models, focusing on high-end models featuring a 2.8-inch high-intensity wide-screen LCD with effective 10.1 megapixels, which can deliver high-resolution pictures similar to those of an SLR camera. In addition to the Japanese market, the company will focus strongly in the future on expanding sales in the overseas markets where growth is expected.
- (b) For solar-powered radio-controlled watches, Casio will expand its mid-range and higher priced lineups for men and women by strengthening the Oceanus brand, and seek to expand its share of the analog market. This is expected to give its solar-powered radio-controlled watches a larger proportion of the Timepiece business and to improve earning capacity.
- (c) For electronic dictionaries, Casio expects demand, especially in the domestic student market, to remain firm. The company aims to expand its share of such overseas markets as South Korea, Germany, and the Spanish-speaking countries, and to become the top brand in the world education market.
- (d) For cellular phones, with the shift to third-generation cellular phones now in full swing, Casio will utilize its advantage in development joint venture, and work to retain its top share in the domestic KDDI "au" market through competitive products adapted to the

technological innovations of the future. In addition, the company will further strengthen its focus on overseas markets and aim to expand sales and profits. The company will also seek to improve earning capacity by reducing costs and increasing speed in the development process through use of common platforms.

- (e) For TFT LCDs, in addition to digital camera monitors, where Casio enjoys an overwhelming market share, the company will become involved in GPS and other new applications and work to strengthen earnings by expanding its share of TFT LCD's for cellular phones and securing capacity through a tie-up with HannStar Display Corporation of Taiwan.

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 its businesses, and is working to achieve earnings growth and further improve its management practices.

Current results forecasts for fiscal 2007 are as below.

Net sales:	¥620.0 billion (up 6.8% year-on-year)
Operating income:	¥50.0 billion (up 16.0% year-on-year)
Ordinary income:	¥45.0 billion (up 15.6% year-on-year)
Net income:	¥27.0 billion (up 13.7% year-on-year)

Exchange rates for fiscal 2007 are estimated at US\$ 1 = ¥110 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 Casio'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 Casio's business performance, financial position and share price are described below. Casio 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 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 Casio'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 Casio's potential products or technology infringes the intellectual property rights of another company
- (8) The loss of social trust and liability for damages due to data leaks
- (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