

Operating Results and Financial Position

Performance Highlights for the First Half of Fiscal 2007

During the first half of fiscal 2007, the Japanese economy experienced an upswing, growing steadily on improved corporate earnings and an accompanying increase in capital expenditures, as well as a general rise in consumer spending and an improved employment situation.

Overseas, while the US economy slowed overall amid continued uncertainty over the future, the Chinese and other Asian economies continued to grow, and Europe continued to show signs of recovery.

The overall market for Casio businesses showed solid growth. Total global annual shipments of cellular phones are expected to break through the 800 million mark for the first time. The digital camera market has also begun to expand again. These products continued to drive growth.

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 the first half of fiscal 2007 expanded 9.6% year-on-year to ¥300.5 billion, primarily driven by growth in the Electronics segment, including digital cameras, cellular phones and radio-controlled watches.

Reporting results by segment, sales in the Electronics segment grew 16.3% year-on-year to ¥256.6 billion. Within that segment, in the Consumer category, Casio's stylish, popular Exilim digital cameras kept up the strong performance of the previous year. Further growth was driven by the release of the EX-Z1000 — the first digital camera in the world to realize 10.1-megapixels in such a compact size — and aggressive overseas promotions. Sales in the category rose 9.3% year-on-year to ¥107.7 billion. In the Timepieces category, sales of the Oceanus series of full-metal case watches, which feature five motors, were solidly positive. Aggressive promotion of the Oceanus series in North America as well as Japan and Europe helped boost Timepieces sales 12.5% to ¥37.6 billion. In the Mobile Network Solutions (MNS) category, sales of all of Casio's new cellular phone products were strong. In fact, the W41CA, a collapsible, slim profile, 22-mm thin cellular phone that allows ready access to many WIN services such as "Osaifu Keitai"® (mobile wallet) and "Mobile Suica"® (mobile train pass), was the top seller of any phone at any carrier. As a result, MNS sales jumped 33.7% to ¥86.8 billion. The System Equipment category achieved robust sales overall, and sales were up 2.9% year-on-year, to ¥24.4 billion. In the Electronic Components and Others segment, sales were ¥43.8 billion, down 17.9% year-on-year. The Electronic Components category, affected by falling unit prices in the TFT LCD business and a decline in sales at Casio Micronics Co., Ltd., saw a 26.1% decrease in sales to ¥27.7 billion. In the Others category, sales rose 1.4% to ¥16.1 billion.

Operating income in the Electronics segment reached ¥25.4 billion, up 36.7% year-on-year, due to efforts to substantially increase added value by enhancing product strength in strategic businesses and to strengthen productivity by promoting greater development and business efficiency. The Electronic Components and Others segment had operating income of ¥0.2 billion, down 95.0% year-on-year. Total consolidated operating income, allowing for elimination or unallocated amounts, rose 17.6% year-on-year to ¥23.1 billion. Ordinary income, at ¥20.3 billion, grew 14.3% year-on-year. Net income for the first half of fiscal 2007 rose 17.1% year-on-year to ¥11.9 billion. As a result of these efforts, Casio set new first-half record-highs for both net sales and operating, ordinary and net income.

Financial Position

Net cash provided by operating activities in the first half of fiscal 2007 was ¥10.2 billion in income. Meanwhile, net cash used in investing activities recorded ¥19.6 billion in expenditure. Net cash used in financing activities recorded ¥3.8 billion in expenditure.

As a result, cash and cash equivalents totaled ¥112.7 billion at the end of the first half of fiscal 2007, a decrease of ¥12.5 billion over the end of the previous full 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. 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 differentiated technologies such as high pixel counts capable of delivering high-resolution images, high-brightness wide-screen LCDs, and long battery life, in addition to the excellent basic performance of Casio digital cameras. Going forward, in addition to the Japanese market, the company will focus strongly on expanding sales in the overseas markets where growth is expected.
- (b) For solar-powered radio-controlled watches, Casio will expand its market share of mid-range and higher priced products for men and women by strengthening its G-Shock, Oceanus, and Baby-G brands. These brands will feature, in addition to solar operation, the latest technologies supporting standard radio waves from five transmitters worldwide (two in Japan, one in the United States, one in Germany, and one in the United Kingdom). These steps are expected to increase the share of total Timepieces category sales accounted for by Casio's solar-powered radio-controlled watches, and to improve earning capacity.
- (c) For electronic dictionaries, in addition to South Korea, Germany, and the Spanish-speaking countries, Casio will reinforce its sales system in Europe and Asia, including China, and improve its overseas market share. Casio aims to become the top brand, not only in the Japanese market, but in the world education market as well.
- (d) For cellular phones, with the shift to third-generation phones now in full swing, Casio will utilize the advantage of its development joint venture, and work to retain a top-class 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 by supplying waterproof, shock-resistant models to Verizon Wireless of the United States.

- (e) For TFT LCDs, Casio will become involved in portable GPS car navigation devices and other new applications, and work to strengthen earnings by expanding its share of TFT LCDs 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.

Currently, digital cameras and cellular phones are performing strongly and exceeding initial forecasts for fiscal 2007. Casio has therefore revised the previous forecasts (announced May 10, 2006) as follows.

Net sales: ¥630.0 billion (up 8.6% year-on-year)

Operating income: ¥51.0 billion (up 18.3% year-on-year)

Ordinary income: ¥46.0 billion (up 18.2% year-on-year)

Net income: ¥27.5 billion (up 15.8% year-on-year)

Exchange rates for the second half of the fiscal 2007 are estimated at US\$ 1 = ¥110 and Euro 1 = ¥138.

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 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 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