

Operating Results

Analysis of Operating Results

(Operating Results for Fiscal 2007)

During 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 performed well as cellular phones showed solid growth and the market for digital cameras began to expand again. These products continued to drive market growth.

In this environment, Casio pursued its management goals by aggressively promoting and developing strategic businesses (timepieces, digital cameras, electronic dictionaries, and cellular phones). 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 2007 expanded 7.0% year-on-year to ¥620.7 billion.

Reporting results by segment, sales in the Electronics segment grew 11.4% year-on-year to ¥527.2 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 marketing. Sales in the category rose 7.3% year-on-year to ¥229.3 billion. In the Timepieces category, aggressive promotion of the Oceanus series in North America as well as Japan and Europe helped boost Timepieces sales 9.7% to ¥77.9 billion. Oceanus full-metal case watches feature five motors and are compatible with standard radio waves from five transmitters worldwide (two in Japan, one in the United States, one in Germany, and one in the United Kingdom). In the Mobile Network Solutions (MNS) category, sales of the W51CA "1 seg" broadcast compatible cellular phone, which allows high-quality images to be enjoyed for a longer period of time, were positive following the success of the W41CA, which was the top seller at any phone at any carrier in Japan. Casio has focused on developing products with outstanding ease of use from the user point of view, and has been selected as the No. 1 cellular phone manufacturer in Japan in handset customer satisfaction for two years in a row. As a result, sales in the segment jumped 22.5% year-on-year to ¥171.3 billion. In the System Equipment category, due to the robust performance of compact, A3-size-paper-compatible color page printers, and super slim projectors, which are stylish and feature outstanding portability, sales in the segment dipped only 0.1% year-on-year to ¥48.6 billion. In the Electronic Components and Others segment, sales were ¥93.5 billion, down 12.5% year-on-year. The Electronic Components category, affected by the falling unit prices of TFT LCDs and a decline in sales at Casio Micronics Co., Ltd., saw a 15.1% decrease in sales to ¥62.7 billion. In the Others category, sales were down 6.5% to ¥30.7 billion.

Operating income in the Electronics segment reached ¥53.8 billion, up 29.1% year-on-year. The operating income margin stood at 10.2% as a result of the increase in income accompanying the growth in sales of digital cameras and cellular phones, as well as efforts to increase added value by enhancing product strength in radio-controlled timepieces and electronic dictionaries, and to strengthen productivity by promoting greater development and business efficiency. The Electronic Components and Others segment, affected by the falling unit prices of TFT LCDs and the decline in sales at Casio Micronics Co., Ltd., was ¥700 million in the red. As a result, total consolidated operating income, allowing for elimination or unallocated amounts, rose 11.5% year-on-year to ¥48.0 billion. In addition, ordinary income grew 6.5% year-on-year to ¥41.4 billion, and net income stood at ¥25.1 billion, up 5.9% year-on-year. As a result of these efforts, Casio set new record-highs for net sales and net income for the fourth consecutive year, and for operating income and ordinary income for the third consecutive year.

(Forecast for Fiscal 2008)

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, in addition to stylish models that always feature differentiated technologies with excellent basic performance, Casio will work to further expand its lineup by tapping into new model types that take advantage of the company's strengths in digital technology. Going forward, in addition to the Japanese market, the company will focus strongly on expanding sales in the overseas markets where major growth is expected.
- (b) For solar-powered radio-controlled watches, Casio will expand its lineup and 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). Moreover, the company is planning to introduce radio-controlled watches in the Chinese market, where radio wave transmission is scheduled to commence this year. These steps are expected to increase the share of the 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 work to retain its top-class share in the domestic KDDI “au” market with competitive products that draw on the company’s outstanding technologies in “toughness, cameras, and imaging.” Moreover, the company will further strengthen its expansion into overseas markets by supplying new products to Verizon Wireless of the United States, to which it began sales fiscal 2007, and conducting sales promotion campaigns to raise recognition levels. In addition, Casio is aiming to grow sales and income with expansion into further markets through the development of new systems.
- (e) For electronic components and others, demand at Casio Micronics Co., Ltd., has been expanding with the recovery in the market for large LCD panels, and Casio will work to curb the fall in prices and boost earning capability through the introduction of high added-value technologies such as ultra-fine Chip On Film (COF) and Wafer Level Chip Size Package (WCSP).

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, the forecasts for fiscal 2008 are as follows.

(Consolidated results forecasts)

Net sales:	¥650.0 billion (up 4.7% year-on-year)
Operating income:	¥53.0 billion (up 10.2% year-on-year)
Ordinary income:	¥48.0 billion (up 15.9% year-on-year)
Net income:	¥28.0 billion (up 11.3% year-on-year)

Exchange rates for fiscal 2008 are estimated at US\$ 1 = ¥110 and Euro 1 = ¥150.

Analysis of Financial Position

Net cash provided by operating activities in fiscal 2007 stood at ¥35.9 billion in income. The main components of this included ¥41.3 billion in income before income taxes and minority interests, ¥31.6 billion in depreciation expenses, and an increase of ¥21.2 billion in accounts receivable because the last date of the fiscal year was a holiday. Meanwhile net cash used in investing activities recorded ¥37.6 billion in expenditure. The main components of this were ¥16.8 billion in payments for the acquisition of tangible fixed assets, including capital expenditure, and ¥17.9 billion in payments for the acquisition of intangible fixed assets. Net cash used in financing activities stood at ¥28.7 billion in expenditure. The main components of this included ¥20.7 billion in the payments for long-term borrowings, and ¥6.5 billion in payments for acquisitions of treasury stock.

As a result, cash and cash equivalents totaled ¥97.2 billion at the end of fiscal 2007, a decrease of ¥27.9 billion over the end of the previous fiscal year.

Basic Policy on Allocation of Profit and Dividends for Fiscal 2007

Casio has positioned the maintenance and expansion of profits for all of its shareholders as an important management issue, and is striving to improve business performance and strengthen its financial structure. The company's dividend policy is based on maintaining stable dividends, improving the allocation of profit by taking factors such as profit levels, financial position and the dividend payout ratio into overall consideration, and strengthening returns for shareholders. The company allocates internal reserves to the research and development and investment required for corporate stability and growth.

Casio plans to increase the dividend by 3 yen per share from the 20 yen per share paid last fiscal year to 23 yen per share for the year under review, taking factors such as business performance into consideration. This is the fourth consecutive year that Casio has increased the dividend.

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 fiscal year under review.

- (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