

Operating Results

Analysis of Operating Results

(Operating Results for the First Half of Fiscal 2008)

During the first half of fiscal 2008, the Japanese economy experienced an upswing, growing steadily on improved corporate earnings and an accompanying increase in capital expenditures. The uncertain outlook for the global economy remained, however, clouded by factors such as the slowdown in the US economy stemming from the sub-prime loan problem, confusion in financial markets resulting from the same problem, and the increasing price of crude oil.

In this environment, Casio pursued its management goals by aggressively promoting and developing strategic businesses (digital cameras, timepieces, electronic dictionaries, and cellular phones). Digital cameras, timepieces, and electronic dictionaries extended their strong performance from the previous fiscal year. However, amid intensifying domestic competition, sales of cellular phones slipped compared to the first half of the previous year due to the dramatic differences in the success of different models and shortages in procurement of components for some models. As a result, total net sales for the half were ¥294.2 billion, down 2.1% year-on-year.

To report results by segment, sales in the Electronics segment were ¥242.4 billion, down 5.5% year-on-year.

In the Consumer category, the EXILIM series, which has earned strong consumer support as a stylish digital camera, extended its good performance from the previous fiscal year. Based on Casio's advanced technologies, Casio has aggressively developed new models with a range of stronger differentiated functions, which include high compression, high quality movies and compatibility with YouTube™, the world's most popular online site for sharing videos. Moreover, the EX-word electronic dictionary, which holds the No. 1 market share in the industry, also registered strong sales of a high value-added model with improved native pronunciation recordings. This new model, combined with overseas expansion primarily in South Korea, delivered further growth. As a result, sales grew 4.3% year-on-year to ¥112.3 billion.

In the Timepieces category, models in the higher price range performed well, principally OCEANUS full-metal case watches, which feature five motors and are compatible with standard radio waves from five transmitters around the world (two in Japan and one each in the US, Germany and the United Kingdom). As a result, sales in this category grew 13.0% year-on-year to ¥42.5 billion.

In the Mobile Network Solutions (MNS) category, strategic models performed well. These included the W52CA, a waterproof "1 seg" broadcast-compatible cellular phone that allows users to enjoy television in wet areas such as the bathroom, and the EXILIM Keitai W53CA, which features enhanced camera performance worthy of the name of Casio's stylish EXILIM digital camera. However, in addition to intensifying domestic competition for cellular phones, there were shortages in the procurement of components for some models. This brought sales in the category down 24.5% year-on-year to ¥65.5 billion.

In the System Equipment category, the company expanded into new businesses, for instance, by establishing CXD NEXT Co., Ltd., a joint venture with NTT DoCoMo, Inc. CXD NEXT provides digital payment systems mainly for the iD™ mobile credit-card platform, as well as customer relationship management (CRM) services that enable proprietors to systematically manage and analyze sales information. Nevertheless, with the impact of declining prices for data projectors and office automation (OA) equipment, primarily personnel systems, sales in the category fell 10.1% year-on-year to ¥21.9 billion.

Sales in the Electronic Components and Others segment were up 18.0% year-on-year to ¥51.8 billion. In the Electronic Components category, demand for TFT LCDs for digital cameras recovered, and sales were up 36.9% year-on-year to ¥38.0 billion. Sales in the Others category declined 14.6% year-on-year to ¥13.7 billion.

Turning now to a discussion of income, the Electronics segment recorded an increase in income driven by growing sales of digital cameras and efforts to increase added value by enhancing product strength in radio-controlled timepieces and electronic dictionaries. Nevertheless, operating income overall declined 30.2% year-on-year to ¥17.7 billion due to factors that included the decline of sales for cellular phones and the impact of lower unit prices in the System Equipment category, mainly for projectors. The Electronic Components and Others segment recorded a deficit of ¥1.3 billion due to the impact of falling unit prices for TFT LCDs and the decline in incomes at Casio Micronics Co., Ltd. As a result, total consolidated operating income, allowing for elimination or unallocated amounts, stood at ¥13.7 billion, down 40.8% year-on-year. In addition, ordinary income was down 48.1% year-on-year to ¥10.5 billion, and net income stood at ¥5.4 billion, down 54.3% year-on-year.

(Forecast for Fiscal 2008)

The future operating environment for the Japanese economy is expected to remain unpredictable due to various uncertainties, including concerns over the slowdown in the US economy and anxiety about the effect 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 six transmitters worldwide (two in Japan, one in the United States, one in Germany, one in the United Kingdom and one in China). This step is 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 provide the domestic KDDI “au” market as well as Verizon Wireless of the United States and LG Telecom of South Korea with competitive products that draw on the company’s outstanding technologies in “toughness, cameras, and imaging,” and will further strengthen its expansion into overseas markets. 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 business, demand at Casio Micronics has expanded due to the recovery in market conditions for large LCD panels, and Casio is working to curb falling prices and strengthen earning capacity through the introduction of high value added technologies, which include Chip on Film (COF) and Wafer Level Chip Size Package (W-CSP).

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:	¥614.3 billion (down 1.0% year-on-year)
Operating income:	¥37.2 billion (down 22.6% year-on-year)
Ordinary income:	¥31.0 billion (down 25.2% year-on-year)
Net income:	¥17.5 billion (down 30.4% year-on-year)

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

Analysis of Financial Position

Net cash provided by operating activities in the first half of fiscal 2008 stood at ¥9.2 billion in income. The main components of this were ¥8.9 billion in income before income taxes and minority interests, ¥16.8 billion in depreciation expenses, and a decrease of ¥16.7 billion in notes and accounts payable accompanying temporary production adjustment. Meanwhile net cash used in investing activities recorded ¥27.2 billion in expenditure. The main components of this were ¥16.1 billion in payments for acquisitions of tangible fixed assets, including capital expenditure, and ¥10.6 billion in payments for acquisitions of intangible fixed assets. Net cash used in financing activities stood at ¥12.0 billion in expenditure. The main components of this were ¥8.0 billion in proceeds from long-term borrowings and ¥20.2 billion in the payments for long-term borrowings.

As a result, cash and cash equivalents totaled ¥67.8 billion at the end of the first half of fiscal 2008, a decrease of ¥29.4 billion over the end of the previous fiscal year.

Basic Policy on Allocation of Profit and Dividends for Fiscal 2008

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 intends to determine the dividend for the current fiscal year, taking factors such as business performance into consideration. However, it is planning to pay a commemorative dividend of 10 yen per share to mark the 50th anniversary of the founding of Casio in addition to the ordinary 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