

Operating Results

Analysis of Operating Results

(Operating Results for Fiscal 2008)

In fiscal 2008, the Japanese economy maintained a trend of recovery with an increase in capital expenditure accompanying improved corporate earnings and a general rise in consumer spending and better employment situation. An uncertain outlook remained, however, due to factors such as the increasing price of crude oil, and financial instability resulting from the sub-prime loan problem starting in the second half of the fiscal year.

Overseas, the US economy displayed a slowing trend as a result of declining investment in housing, and concern about a slowdown in Europe grew stronger. Economic expansion continued in China and other Asian countries.

In this environment, Casio pursued its management goals by aggressively promoting and developing strategic businesses (digital cameras, timepieces, electronic dictionaries, and cellular phones). Accompanying this, the company focused on realizing greater management efficiency, including strong efforts to reform its business structure and improve profit ratios and capital efficiency.

As a result, total net sales for fiscal 2008 rose 0.4% year-on-year to ¥623.0 billion, making this the sixth consecutive year of sales growth.

Turning to a report of results by segment, sales in the Electronics segment were ¥526.6 billion, down 0.1% year-on-year. Digital cameras again turned in a solid performance, with Casio aggressively developing new models boasting a range of stronger differentiated functions, including the EXILIM CARD EX-S10, the world's smallest, thinnest camera in the 10 megapixel class. Performance was also strong for both the EX-word electronic dictionary, which holds the No.1 market share in the industry, and the OCEANUS solar-powered radio-controlled watch, which is firmly established as a premium brand, as they substantially improved their respective market shares. Solar-powered radio-controlled models in the higher price range performed particularly well. These models feature a full-metal case, and are compatible with standard radio waves from five transmitters around the world (two in Japan and one each in the United States, Germany and the United Kingdom). As a result, solar-powered radio-controlled models now hold a 50% share of total net sales of timepieces. Sales of cellular phones also rose sharply in the second half, as the EXILIM Keitai W53CA, which makes the most of Casio's digital camera technology, and the Wooo Keitai W53H, which features a 2.8-inch wide QVGA organic EL display, became major hit products.

Sales in the Electronic Components and Others segment rose 3.0% year-on-year, to ¥96.3 billion. With the recovery of demand for TFT LCDs, the unit price has stopped falling, and Casio has increased its share in applications for cellular phones and GPS equipment, recording healthy sales. In March 2008, Casio Micronics Co., Ltd., and Hitachi Cable, Ltd., entered into a share transfer agreement in connection with the transfer of the former's film device business, and Casio Micronics worked to achieve a radical innovation in business structure.

Turning now to a discussion of income, operating income in the Electronics segment declined 13.6% to ¥46.5 billion, and the operating income margin was 8.8%. Improving product strength in radio-controlled timepieces, electronic dictionaries, and cellular phones brought increases in added value, and heightened efficiency in development and business operations resulted in

higher productivity. As a result, income in this segment improved markedly in the second half. The Components and Others segment recorded a deficit of ¥3.2 billion, due to the impact of falling unit prices for TFT LCDs and the decline in incomes at Casio Micronics. As a result, total consolidated operating income, allowing for elimination or unallocated amounts, stood at ¥37.7 billion, down 21.5% year-on-year, and the operating income margin was 6.1%. Ordinary income was ¥31.0 billion, down 25.1% year-on-year. Due in part to an extraordinary loss posted in connection with the transfer of Casio Micronics' film device business, net income fell 51.5% year-on-year to ¥12.1 billion for fiscal 2008.

(Forecast for Fiscal 2009)

The future operating environment is expected to remain unpredictable due to various uncertainties, including the slowdown in the US economy and anxiety about the effect of rising crude oil prices on the global economy. 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 expand its lineup around the EXILIM PRO EX-F1, which offers the world's fastest burst shooting capability: 60 frames per second. 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 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 and OCEANUS brands. These brands will feature 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). By using a common module in all regions— Japan, the United States, Europe, and China—Casio will achieve cost reductions that are expected to bring further growth in sales and profitability.
- (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 maintain its top share of the domestic KDDI "au" market with competitive products that draw on the company's outstanding technologies in "toughness, cameras, and imaging." In addition, the company is seeking to increase the stability and profitability of its business by entering new markets with the development of a W-CDMA system, in response to the prospect of stiffening competition among domestic carriers. Casio will also step up its efforts to expand in overseas markets by reinforcing its lineup of products for Verizon Wireless of the United States and other measures.
- (e) In the electronic components business, since the business environment is on a recovering trend, the company is striving to improve sales and profits through the introduction of new, high-value-added technologies. The company will standardize management decision making at Casio Micronics, which is slated to become a wholly owned consolidated subsidiary. Casio will deploy the systems needed to swiftly and flexibly execute a radical strategy that encompasses alliances with other firms in the BUMP business, including Wafer Level Chip Size Packages (W-CSP). Through these measures, Casio will maximize the corporate value of the entire Casio Group.

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 2009 are as follows.

(Consolidated results forecasts)

Net sales:	¥630 billion	(up 1.1% year-on-year)
Operating income:	¥47 billion	(up 24.5% year-on-year)
Ordinary income:	¥41 billion	(up 32.2% year-on-year)
Net income:	¥23 billion	(up 88.7% year-on-year)

Exchange rates for fiscal 2009 are estimated at US\$ 1 = ¥100 and Euro 1 = ¥150.

Analysis of Financial Position

Net cash provided by operating activities in fiscal 2008 was ¥71.7 billion in income, up ¥35.8 billion year-on-year. The main components of this were ¥23.8 billion in income before income taxes and minority interests, ¥33.9 billion in depreciation expenses, a decrease of ¥26.6 billion in working capital (notes and accounts receivable, inventories, notes and accounts payable), and ¥14.2 billion in income taxes paid. Net cash used in investing activities rose ¥1.5 billion to ¥36.1 billion in expenditure. The main components of this were ¥22.5 billion in payments for acquisitions of tangible fixed assets, including plant and equipment, and ¥15.5 billion in payments for acquisitions of intangible fixed assets. In addition, net payments for purchase, sales and redemption of investment securities and payments for acquisitions of consolidated subsidiaries and affiliates resulted in expenditures of ¥4.8 billion. Net cash used in financing activities declined ¥13.7 billion to ¥42.4 billion in expenditure. The main components of this were ¥30.0 billion in proceeds from long-term borrowings, and ¥10.0 billion in the redemption of bonds.

As a result, cash and cash equivalents at the end of fiscal 2008 stood at ¥87.9 billion, down ¥9.2 billion over the end of the previous fiscal year, and the balance of interest-bearing debts dropped ¥36.1 billion to ¥47.4 billion. The debt/equity ratio (interest-bearing debts/shareholder's equity) improved significantly, to 0.21 times from 0.37 times at the end of the preceding 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 will improve business performance and strengthen its management structure by allocating internal reserves to the research and development and investment required for corporate stability and growth.

Taking factors such as business performance into consideration, Casio plans to issue total dividends of ¥33 per share in fiscal 2008, composed of ¥23 per share and a 50th anniversary commemorative dividend of ¥10 per share.

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