

Business Risks

The management performance, financial position and share price of Casio are subject to the following risks. We have prepared a list of items that might have an impact on the forecasts included in this report as of the consolidated reporting period ended March 2007.

1) Japan's economy and the global economy

The Casio Group's products are sold in Japan and in markets around the world, and demand is thus subject to the economic trends of each country. Given that the majority of our products are marketed to consumers, the Casio Group is especially affected by trends in consumer spending.

2) Downward pressure on product prices

In the industries in which the Casio Group is active, competition is intensifying as many companies make aggressive efforts to increase their shares in Japan and in overseas markets. There is the possibility that a rapid decline in product prices will have a negative impact on the Casio Group's business performance.

3) New products

In the event that the Casio Group is unable to speedily bring to market popular new products at a steady pace, or in the event that competitors release products similar to those being launched by the Casio Group, especially in the case where the launch of competing products coincide, there is a possibility that the Casio Group may see an erosion of the competitive advantage achieved as part of the first-mover advantage enjoyed by the pioneer of a new product.

4) Mobile communications industry

Sales to the mobile communications industry account for a major portion of the Group's total sales. Thus, the Casio Group is affected by any major changes in strategy or product specifications made by the major customers. In addition, changes in schedules or cancellation of large-lot orders might have a significant negative impact on the Group's earnings performance.

5) Outsourcing

With the aim of improving the Casio Group's production efficiency and the operating income margin, we have outsourced a substantial portion of our manufacturing and assembly work to outside service suppliers. There is a risk, however, that quality control will become difficult to enforce. Moreover, problems may arise concerning violations of laws, regulations, and intellectual property rights of third parties, by the outside supplier. Such occurrences could have a negative impact on the Group's earnings performance, and might possibly hurt the product's reputation.

6) Technology development and changes in technologies

In those business areas in which the Casio Group is active, the pace of technological development is quite rapid and the swift pace at which the market's needs evolve brings with it the risk that Casio Group products may be rendered obsolete more quickly than expected. This, in turn, would cause an unexpected sudden sharp decline in sales.

7) Risks associated with international developments and overseas operations

The majority of the Casio Group's production and sales activities take place in locations outside Japan. Consequently, overseas political and economic developments and revisions of laws and legislation may have a significant impact on the Group's financial position. In particular, the amendment of laws or the enactment of new laws in foreign countries is difficult to predict, and such developments might have a negative impact on the Casio Group's earnings performance.

8) Intellectual property

The Group principally uses proprietary technologies, and protects these proprietary technologies through a combination of patents, registered trade marks and other intellectual property. The following is a list of accompanying risks.

- Competitors might develop the same technologies as the Group's own proprietary technologies
- Denial of approval for a pending patent submitted by a Group member
- Ineffectiveness of measures aimed at preventing the misuse or violation of intellectual property rights held by a Group member
- Legislation relating to intellectual property might not provide adequate protection for the Group's intellectual property
- The Group's future products and technologies might constitute a violation of another company's intellectual property rights

9) Defective products and lawsuits

As a manufacturer and marketer of consumer products, we ensure strict quality control for our products. To date, we have never been subject to a damaging claim and have never had our reputation endangered. Even so, it is impossible to ensure that claims regarding product liability and product safety will not be brought against Casio Group members in the future.

10) Risks related to information management

The Casio Group maintains personal information and confidential business information relating to the promotion and development of its business operations. There are in-house rules governing the use of this information, and each Group company raises awareness of the need for strict control of such information in its employee training program. However, there is always the possibility that information may be leaked, and such a leak of information might have a negative impact on the Group's business, financial position and earnings performance.

11) Alliances, mergers and strategic investments

The Casio Group may engage in alliances and mergers, or undertake strategic investments, in Japan or overseas to expand its business operations or raise the efficiency of management. Changes in the business partner's management environment, business strategies, or operating environment might have a negative impact on the Casio Group's business, financial position and earnings performance.

12) Risks arising from fluctuations in foreign exchange rates and interest rates

The Casio Group maintains operations in numerous countries around the world. Consequently, the Group is substantially affected by exchange rate fluctuations. The Group's gross profit might be negatively affected as a result of movements in foreign currencies against the yen. Moreover, the Group is exposed to risk associated with interest rate changes. These risks could have an impact on overall operating costs, procurement costs, value of monetary assets and liabilities (particularly long-term liabilities).

13) Other risks

The following other factors might have an impact on the Group's business operations in the future.

- Cyclical trends in the IT sector
- Uncertainties as to whether the required equipment, raw materials, facilities, and electricity can be procured at an appropriate price
- A decline in the value of securities held by the Group
- Revisions to laws and regulations regarding the accounting standards for retirement benefits and rapid changes in pension fund operations
- Damage caused by fires, earthquakes and other natural disasters, as well as other accidents that disrupt operations
- Social unrest caused by wars, terrorist attacks, and epidemics