

CONSOLIDATED FINANCIAL REVIEW

RESULTS OF OPERATIONS

ANALYSIS OF NET SALES

In the fiscal year ended March 31, 2001, net sales increased 8.2% to ¥443,930 million.

Overseas sales slipped 2.7%, with the overseas sales ratio down 4.4 percentage points to 39.3%, reflecting a sharp downturn in the worldwide market in the second half.

Sales increased 1.1% in North America, which ac-

counted for 37.8% of overseas sales. Sales also advanced 15.8% in Europe, which made up 28.9% of overseas sales. However, sales declined 17.5% in Asia and other regions, excluding Japan, representing 33.3% of overseas sales.

Domestic sales increased 16.6% and accounted for 60.7% of net sales, with both the Electronics segment and the Electronic Components and Others segment recording growth.

SALES BY PRODUCT CATEGORY

		Millions of yen	
		2001	2000
Electronics			
Consumer		¥140,828	¥140,654
	Domestic	63,467	66,834
	Overseas	77,361	73,820
Timepieces		68,246	81,515
	Domestic	21,113	26,677
	Overseas	47,133	54,838
MNS (Mobile Network Solutions)		61,614	30,167
	Domestic	46,093	19,297
	Overseas	15,521	10,870
System Equipment		56,892	52,541
	Domestic	45,076	38,510
	Overseas	11,816	14,031
Subtotal		327,580	304,877
	Domestic	175,749	151,318
	Overseas	151,831	153,559
Electronic Components and Others			
Electronic Components		66,512	47,841
	Domestic	57,682	40,279
	Overseas	8,830	7,562
Others		49,838	57,620
	Domestic	36,105	39,584
	Overseas	13,733	18,036
Subtotal		116,350	105,461
	Domestic	93,787	79,863
	Overseas	22,563	25,598
Total		¥443,930	¥410,338
	Domestic	269,536	231,181
	Overseas	174,394	179,157

Sales in the Electronics segment increased 7.4%, as a 16.1% rise in domestic sales offset a 1.1% decline in overseas sales.

In the Consumer category, sales edged up 0.1%, reflecting a 5.0% decline in domestic sales and a 4.8% increase in overseas sales. Strong performance in

electronic dictionaries in Japan and brisk demand for digital cameras contributed to sales. However, favorable performance in these products was partially offset by weak demand for audio products and electronic musical instruments.

In the Timepieces category, sales fell 16.3%. Domestic sales fell 20.9% and overseas sales declined 14.1% as a result of stagnant markets in Japan and overseas. However, we believe that prospects for increased sales of WRIST CAMERAS are favorable in the future.

Sales of Mobile Network Solutions jumped 104.2%. Domestic sales for the category increased 138.9%, owing to the success of the water- and shock-resistant cellular phone for the cdmaOne™ service of au Corporation of the KDDI Group, and strong sales performance of CASSIOPEIA® Pocket PCs. Overseas sales advanced 42.8%.

Sales in the System Equipment category increased 8.3%, spurred by domestic sales growth of OA products.

Sales in the Electronic Components and Others segment increased 10.3%, as a 17.4% rise in domestic sales

compensated for an 11.9% decrease in overseas sales.

Sales of Electronic Components increased 39.0%, reflecting strong demand for exclusive HAST-LCDs for digital cameras and other appliances, as well as high growth in bump processing and tape carrier package (TCP) assembly and processing technology for LSI fuelled by strong demand for PCs and cellular phones.

Sales of Others decreased 13.5%.

ANALYSIS OF NET INCOME

The cost of sales ratio worsened 2.3 percentage points to 71.0%, and selling, general and administrative expenses as a percentage of net sales declined 1.3 percentage points to 22.3%, although both were affected by new accounting standards for employees' severance and retirement benefits. Research and development (R&D) expenses were ¥11,968 million, or 2.7% of net sales.

As a result, the operating income margin worsened 0.7 percentage point to 4.0%, and operating income decreased 8.1%, or ¥1,572 million, to ¥17,905 million.

COMMON-SIZE ANALYSIS OF INCOME STATEMENTS

	Net sales = 100.0		
	2001	2000	1999
Net sales	100.0	100.0	100.0
Cost of sales	71.0	68.7	67.9
SG&A expenses	22.3	23.6	24.7
R&D expenses	2.7	3.0	4.6
Operating income	4.0	4.7	2.8
Income before income taxes and minority interests	2.1	3.0	—
Net income	1.5	1.5	—

Net financial expenses (interest and dividends income minus interest expense) decreased ¥483 million to ¥1,603 million, as interest expense declined ¥488 million, reflecting lower levels of debt. Foreign exchange loss—net totaled ¥3,420 million, disposal and devaluation of inventories was ¥5,152 million, loss on dissolution of affiliated companies was ¥2,909 million and gain on sales of securities of affiliated companies was ¥4,280 million. Consequently, other expenses,

net of other income, increased ¥1,562 million to ¥8,704 million.

Owing to the decrease in operating income and the increase in other expenses, income before income taxes and minority interests declined 25.4% to ¥9,201 million. Net income was ¥6,547 million.

Net income per share was ¥24.11, compared with net income per share of ¥22.73 in the previous term.

INTEREST COVERAGE

	Millions of yen		
	2001	2000	1999
Operating income	¥17,905	¥19,477	¥12,551
Interest and dividends income	1,923	1,928	1,825
Total	¥19,828	¥21,405	¥14,376
Interest expense	¥ 3,526	¥ 4,014	¥ 4,973
Interest coverage (times)	5.62	5.33	2.89

ANALYSIS OF GROUP OPERATIONS

The consolidated accounts reflect the operations of the parent company, manufacturing and marketing subsidiaries in Japan and overseas, and subsidiaries engaged in related activities. In August 2000, Casio sold 80% of its equity in The Casio Lease Co., Ltd. to Diamond Lease Co., Ltd., and Asahi Corporation was dissolved in March 2001.

For the fiscal year ended March 31, 2001, there were 66 consolidated subsidiaries and 10 affiliates accounted for by the equity method, compared with 67 consolidated subsidiaries and nine equity-method affiliates during the previous term.

CASH FLOW AND CAPITAL INVESTMENT

	Millions of yen		
	2001	2000	1999
Net income (loss)	¥ 6,547	¥ 6,173	¥ (8,534)
Depreciation	22,065	30,220	31,001
Cash flow	28,612	36,393	22,467
Capital investment	30,278	35,546	31,212

Net cash used in investing activities increased 8.2% to ¥28,641 million. Payments of acquisitions of tangible fixed assets used cash of ¥28,781 million, while proceeds from sales of affiliated companies generated cash of ¥7,305 million.

Net cash used in financing activities rose 11.9% to ¥26,446 million. The largest use of cash in the category was a net decrease in short-term borrowings of ¥23,956 million, followed by payments of long-term debt of ¥5,996 million.

In aggregate, cash and cash equivalents at end of

LIQUIDITY AND FINANCIAL RESOURCES

ANALYSIS OF CASH FLOWS

Net cash provided by operating activities fell 52.8% to ¥21,492 million. Primary sources of cash were income before income taxes and minority interests of ¥9,201 million and depreciation (including software) of ¥24,515 million. An increase in notes and accounts payable provided cash of ¥8,002 million, while an increase in notes and accounts receivable used cash of ¥15,993 million.

year was ¥83,070 million, compared with ¥113,751 million a year earlier.

ANALYSIS OF FINANCIAL POSITION

Total current assets declined ¥24,011 million to ¥288,304 million, largely owing to a ¥32,437 million decrease in marketable securities, which included a ¥9,942 million transfer to investment securities and other investments due to the adoption of new accounting standards for financial instruments. Accounts receivable rose ¥12,599 million to ¥87,802 million,

mainly due to an increase in accounts receivable for cellular phones at the end of the fiscal year.

Inventories increased ¥8,305 million to ¥88,812 million, due to sales growth of MNS and electronic components.

Due to sales of 80% of Casio's equity in The Casio Lease Co., Ltd., net property, plant and equipment declined ¥37,618 million to ¥105,283 million, accounting for 23.6% of total assets, compared with 28.2% at the end of the previous term. Total investments and other assets increased ¥12,033 million to ¥52,296 million. Foreign currency translation adjustments were re-

ported in the shareholders' equity section due to the adoption of revised accounting standards.

Total assets decreased 12.1% to ¥445,883 million.

Total current liabilities were ¥144,272 million, or ¥38,290 million less than a year earlier, owing to large declines in short-term borrowings and long-term debt due within one year as a result of sales of Casio's equity in The Casio Lease Co., Ltd. As a result, net working capital rose ¥14,279 million to ¥144,032 million. The current ratio improved from 1.71 to 2.00 times.

INTEREST-BEARING DEBT

	Millions of yen		
	2001	2000	1999
Short-term borrowings	¥27,502	¥ 66,580	¥ 88,014
Bonds due within one year	—	—	149
Long-term debt due within one year	500	10,372	16,743
Long-term bonds	123,811	123,811	123,811
Long-term loans	5,450	23,073	16,528
Subtotal	¥157,263	¥223,836	¥245,245
Export drafts discounted with banks	4,337	2,302	4,605
Total	¥161,600	¥226,138	¥249,850
Interest-bearing debt/total assets (%)	35.9	44.4	48.9
Interest on interest-bearing debt (%)	1.8	1.7	2.1

Interest-bearing debt (long-term debt, short-term borrowings, long-term debt due within one year and export drafts discounted with banks) fell ¥64,538 million to ¥161,600 million.

The combination of a smaller asset base and higher

sales resulted in 0.12 point increase in asset turnover to 0.93 times. With a net income margin of 1.5%, return on assets was 1.37%. The equity ratio was 36.4% compared with 33.5% a year earlier. Return on equity was 3.94%.

EFFICIENCY AND RETURN MEASURES

	2001	2000	1999
Return on equity (%)	3.94	3.63	—
Return on assets (%)	1.37	1.22	—
Equity ratio (%)	36.4	33.5	33.7
Asset turnover (times)	0.93	0.81	0.86
Inventory turnover (months)	3.38	3.43	2.97