

Management's Discussion and Analysis

NET SALES

Net sales climbed 18.8% year-on-year on a consolidated basis in fiscal 2004, to ¥523,528 million. This was due chiefly to strong performances by our strategic businesses of digital cameras, electronic dictionaries, cellular phones, and TFT LCDs.

	Millions of yen	
	2004	2003
Electronics:		
Consumer	¥188,960	¥142,486
Timepieces	70,131	68,500
Mobile Network Solutions (MNS)	97,805	87,819
System Equipment	48,706	51,340
Subtotal	405,602	350,145
Electronic Components & Others:		
Electronic Components	86,903	60,566
Others	31,023	29,856
Subtotal	117,926	90,422
Total	¥523,528	¥440,567

Results by Segment

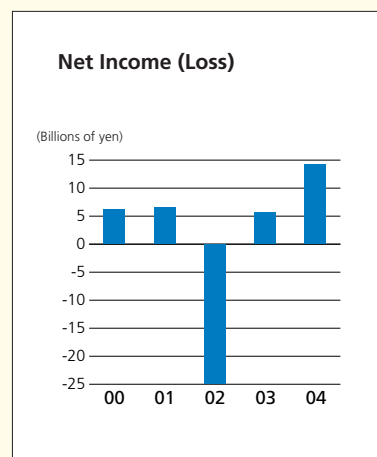
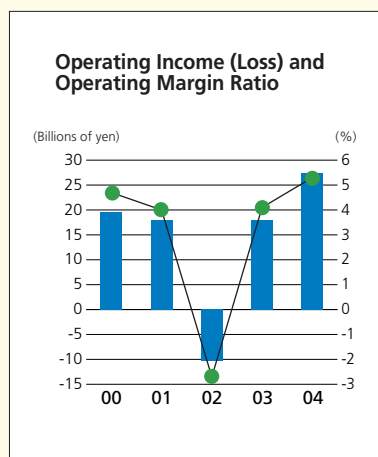
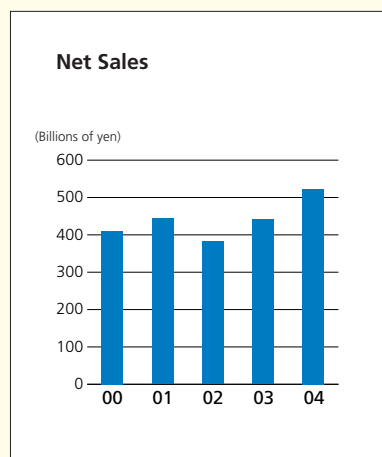
Sales in the Electronics segment increased 15.8%, to ¥405,602 million, and accounted for 77.5% of net sales.

In the Consumer Category, sales surged 32.6%, to ¥188,960 million. In addition to our best-selling digital camera the EX-Z3 — the model with the No.1 share in Japan — we launched new products including new models of the same series, the EX-Z4 and the EX-Z40, which showed a strong performance throughout the term. As for electronic dictionaries, Casio boasts the most extensive product lineup in the industry, having developed models loaded with contents specific to the needs of each target user segment, such as students or business professionals.

In the Timepieces Category, sales grew 2.4% to ¥70,131 million. Thanks to strong sales of "The G," our solar-powered radio-controlled watches have opened up a new market. In November, we further expanded our product lineup by launching an ultra-thin solar-powered radio-controlled watch. In European markets, we began selling models receiving radio transmissions both from U.K. and German stations, and are making further efforts to expand sales in overseas markets.

In the MNS Category, sales rose 11.4%, to ¥97,805 million. We saw strong sales of our au-brand cellular phone equipped with a megapixel camera, which went on sale in May 2003, and our au brand cellular phone equipped with a 2-megapixel camera, which was brought to market in December.

In the System Equipment Category, sales fell 5.1%, to ¥48,706 million, owing primarily to



the worldwide decline in IT-related demand.

Sales in the Electronic Components and Others segment increased 30.4%, to ¥117,926 million, and accounted for 22.5% of net sales.

Sales in the Electronic Components Category climbed 43.5%, to ¥86,903 million. Our TFT LCD business has gained the top share of the world-wide market for screens used in digital cameras. In addition, we substantially increased TFT LCD sales for cellular phone use in overseas markets. With regard to the film device business of Casio Micronics Co., Ltd., sales of COF (chip-on-film), a leading product benefiting by the recovery in demand for PCs, exceeded initial targets.

Sales in the Others Category increased 3.9%, to ¥31,023 million. Substantial growth in Yamagata Casio Co., Ltd.'s components business compensated for the effects of the consolidation of independent businesses at Aichi Casio Co., Ltd., resulting from the Company's business alliance with Flextronics to consign certain manufacturing operations.

Results by Region

Sales in Japan grew 11.4%, to ¥299,224 million, and comprised 57.2% of net sales. The increase in sales is attributable to strong sales of our strategic products — digital cameras, electronic dictionaries and cellular phones. Sales in North America rose 3.7%, to ¥51,230 million, which accounted for 9.8% of net sales. Sales in Europe rose 21.3%, to ¥68,132 million, principally as a result of growing sales of digital cameras, and accounted for 13.0% of net sales. Sales in Asia and other regions, excluding Japan, climbed 58.1%, to ¥104,942 million, and accounted for 20.0% of net sales on the back of a dramatic increase in electronic component sales.

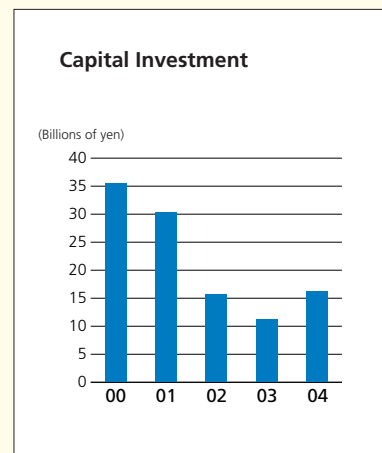
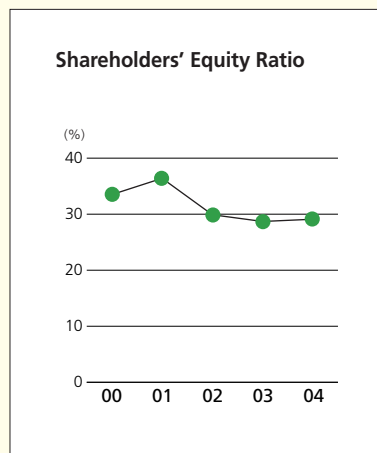
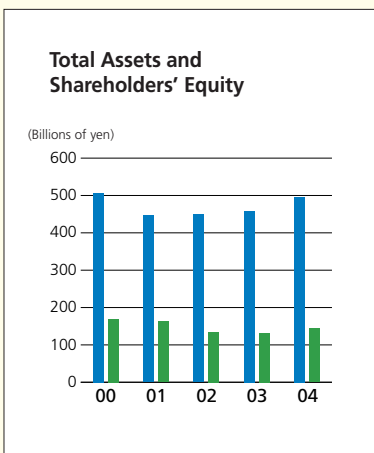
RESULTS OF OPERATIONS

For fiscal 2004, operating income after consideration of elimination or unallocated amounts came to ¥27,491 million up 53.5% year-on-year. The Electronics segment posted an operating income of ¥25,226 million, up 41.6% and the Electronic Components and Others segment posted operating income of ¥7,066 million, up 46.8%. This rise in operating income is the result of Casio's strategy of enhancing value-added by strengthening product appeal, as well as Companywide efforts to improve management efficiency and bolster the Group's financial base through business reform.

Net financial expenses decreased from ¥2,211 million to ¥1,562 million due primarily to repayment of interest-bearing debt. Other expenses came to ¥3,393 million, compared with ¥6,089 million for the previous term. This is due mainly to the reporting of ¥2,753 million in gain on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme.

Income before income taxes and minority interests grew 134.4%, to ¥22,536 million. Net income for the period was a record ¥14,176 million, up 151.0% from fiscal 2003.

Net income per share came to ¥51.99.



FINANCIAL CONDITION

Total assets increased 8.0%, to ¥496,039 million. Efforts to reduce the level of inventories enabled a ¥8,604 million reduction in inventories and decreased inventories turnover by 0.7 month, to 2.0 months. However, due to a purchase of short-term Japanese government bonds, investment in marketable securities exceeded the previous-year level by ¥18,451 million. An increase in materials supplied for consignment production in line with a wider scope of outsourcing resulted in a ¥12,451 million increase in accounts receivable — other.

Investment securities increased ¥10,512 million, as a result of the application of mark-to-market accounting, reflecting a recovery in the stock market.

Total liabilities increased 7.4%, to ¥348,753 million. Trade notes and accounts payable rose by ¥21,973 million, due to higher levels of production and consignment production. As a result of the redemption of bonds on maturity, the convertible bonds (due for redemption within one year) declined ¥23,811 million. On the other hand, we issued ¥20,000 million worth of bonds with stock acquisition rights in December 2003.

Shareholders' equity rose 9.4%, to ¥144,403 million. Shareholders' equity ratio increased 0.4 percentage point to 29.1%.

CASH FLOW ANALYSIS

Net cash provided by operating activities amounted to ¥61,777 million from ¥55,131 million. Income before income taxes and minority interests amounted to ¥22,536 million, depreciation totaled ¥19,465 million, and working funds grew by ¥20,791 million as a result of a reduction in inventories etc.

Net cash used in investing activities amounted to ¥15,694 million from ¥21,311 million, due largely to a payments of ¥13,365 million for the acquisition of tangible fixed assets.

Net cash used in financing activities totaled ¥17,693 million from ¥38,889 million. Of this amount, ¥10,120 million was used to pay interest-bearing debt, ¥3,375 million was payments for cash dividends and ¥4,131 million was used for payments for acquisitions of treasury stock.

Cash and cash equivalents as of March 31, 2004 were up ¥26,705 million over the previous term-end, at ¥123,141 million.

CAPITAL INVESTMENT

Capital investment amounted to ¥16,213 million, up 45.2%, in fiscal 2004. Broken down by segment, Casio invested ¥9,301 million, up 49.3%, in the Electronics segment and ¥6,735 million, up 38.9%, in the Electronic Components and Others segment. The largest factor in the increase was expenditure for renovation of the Hachioji Research & Development Center, Tokyo. The remaining capital investment, made by the Company as a whole, cannot be accounted for by segment.

RESEARCH & DEVELOPMENT

R&D expenses rose 0.5%, to ¥14,187 million. By segment, the Electronics segment increased 2.6%, to ¥8,846 million. The Electronic Components and Others segment declined 1.0% to ¥1,964 million. The remaining portion of R&D expenses, which were incurred by the Company as a whole, cannot be accounted for by segment.