



Kazuo Kashio, *President and CEO*

Business Environment

During the term under review, ended March 31, 2005 (hereinafter fiscal 2005), the expansion of the world economy became more moderate, with growth slowing in the U.S. economy and Asia, all of which had been performing steadily. The Japanese economy performed well, showing signs of moderate recovery including improvement in corporate earnings, an accompanying increase in private-sector capital expenditures, and signs of improvement in consumer spending.

Nevertheless, some causes for concern, including a slowdown in exports and a leveling off in private consumption, also emerged during the second half of the year, and there has been some uncertainty about the economic outlook.

The overall market for Casio's businesses improved and continued to be driven by growth in new products, typically consumer digital electronics (digital cameras, cellular phones, LCD TVs, and DVDs). However, some causes for concern over the future, such as inventory adjustment and falling product prices, have emerged as a result of the deterioration in the balance between demand and supply since the beginning of fall.

Business Performance for the Term under Review

In this environment, the Casio Group has been strongly promoting and developing its strategic businesses, which are timepieces, digital cameras, electronic dictionaries, cellular phones, and TFT LCDs, in pursuit of

management targets. At the same time, the Company has been focusing on realizing greater management efficiency, including raising operating income margin and improving capital efficiency.

As a result, consolidated net sales grew 6.8% year-on-year to ¥559.0 billion in fiscal 2005, primarily driven by growth in strategic businesses.

With efforts to substantially increase added value by enhancing product strength in strategic businesses and to strengthen earning potential by promoting greater management efficiency, consolidated operating income jumped 42.0% year-on-year to ¥39.0 billion. Net income rose 51.9% year-on-year to ¥21.5 billion. The Company achieved record-high sales and income.

Casio increased the dividend by ¥2 per share from the ¥15 per share paid one year earlier to ¥17 per share for the year under review, taking factors such as business performance into consideration. This resulted in an increase in the dividend for two years in a row.

Issues to Be Addressed and Corporate Strategy

The Casio Group considers increasing its earning capacity and strengthening its financial structure to be pressing issues, and the entire Company has been united in promoting the strategies described below since fiscal 2004.

(1) Improving Earning Capacity

Casio has positioned businesses that have

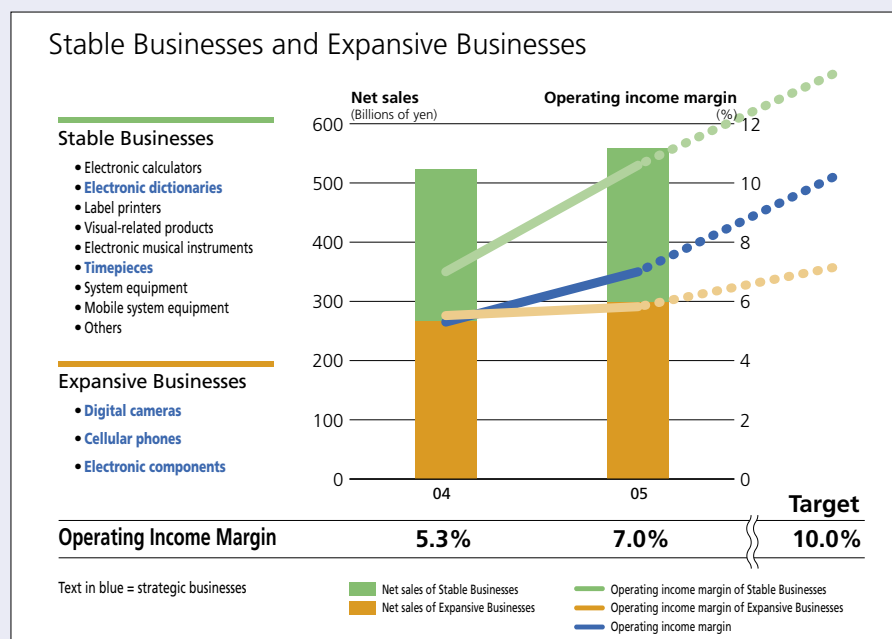
maintained top market share and are expected to obtain stable cash flow without requiring significant additional investment as Stable Businesses. These businesses include Timepieces, Consumer (excluding digital cameras), and System Equipment. The Company has positioned businesses that are expected to experience significant global market growth in the future, while also experiencing intensifying competition as a large number of companies enter the market, as Expansive Businesses. These include the digital camera and cellular phone businesses, as well as Electronic Components (TFT LCDs). With these two types of businesses at the core, Casio is pursuing management that secures stable growth and profitability by developing strategies that suit the characteristics of each type of business. In fiscal 2005, Stable Businesses accounted for 47% of net sales and Expansive Businesses accounted for 53% of net sales. The operating income margin was 10.6% in Stable Businesses

and 5.7% in Expansive Businesses. As a result, the operating income margin for the Company overall, allowing for eliminations or unallocated amounts, was 7.0%, which is a substantial improvement from the 4.1% of fiscal 2003. Going forward, the Company aims to secure stable profits in Stable Businesses while increasing operating income in Expansive Businesses. Casio is focused on achieving a 10% operating income margin overall.

(2) Strengthening Financial Position

Casio is moving ahead strongly with improvements in its shareholders' equity ratio and debt/equity (D/E) ratio with the aim of strengthening the financial foundations for future growth.

In the term under review, Casio realized major improvements: the shareholders' equity ratio improved from 28.7% in fiscal 2003 to 32.7%, and the D/E ratio went from 1.34 in fiscal 2003 to 0.95. In the future, the Company will continue to pursue

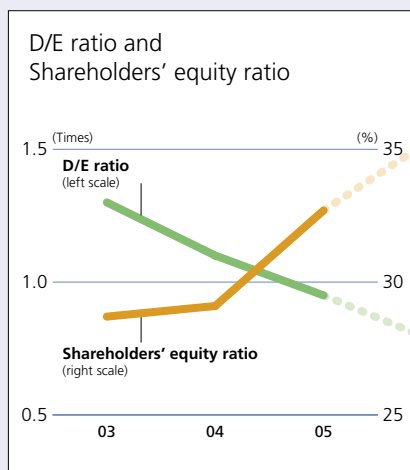


even more thoroughly efficient cash flow management and strive to generate free cash flow, aiming for a complete turnaround to a strong and stable financial position.

Through the execution of the two strategies described above, Casio seeks to deliver original products and services with high added value, increase corporate value, and contribute to the building of a society of abundant creativity.

Corporate Governance

In order to ensure the achievement of management objectives, enhance competitiveness, and increase corporate value, Casio recognizes the critical importance of rapid decision-making, appropriate business execution, and enhancing management supervisory functions to improve transparency. To realize them, the Company has implemented a range of measures, including a director system and corporate auditor system with a corporate officer system and strengthened internal audit system with the aim of enhancing corporate governance.



Casio understands that sustainable corporate growth will only come about with the sustainable development of the global community, and is actively managing its corporate social responsibility (CSR). For Casio, CSR is a key pillar of corporate management.

In an effort to bolster its activities in this area, the Company established the CSR Operations Section in April 2004 to improve its company-wide organization. In December 2004, Casio also inaugurated the CSR Committee, which consists of directors and auditors with the President as Chairman. The CSR Committee determines the direction of company-wide CSR activities, including basic policy and other important matters, and works to enhance the Company-wide risk management system.

The company also sought to improve corporate governance and compliance by ensuring that all employees and officers understand and comply with laws and regulations, maintain social order, and contribute to society based on the Casio Common Commitment and Casio Code of Conduct prepared in accordance with the Charter of Creativity for Casio.

To publicize the result of its CSR activities, Casio plans to publish a CSR Report in the current term.

Since Casio's foundation, its corporate creed has been "Creativity and Contribution." Casio's mission is to pursue growth as a company, increase corporate value, and remain attractive for all investors and customers by creating a high-standard

living for people around the world and contributing to society. The company is accomplishing this by introducing innovative ideas and astonishingly good solutions based on its proprietary advanced technologies.

Casio will continue to deliver the values of "function, quality, economy, speed, productivity, ethics, safety, and compatibility with the environment" in its products and services. In the months and years ahead, the Company looks forward to providing all of its stakeholders with more "excitement" than they anticipate, and greater inspiration than ever before.

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