

Results of Operations

Analysis of Net Sales

In the fiscal year ended March 31, 1998, net sales rose 9.3% to ¥502,012 million, owing to strong growth in the Electronic Timepieces and the Electronic Components and Others categories. Solid growth was recorded both overseas and in Japan.

Overseas sales increased 8.9%, following 18.1% growth during the previous term. The overseas sales ratio declined 0.2 percentage point to 46.6%. Sales grew 16.4% in North America and advanced 13.1% in Europe, accounting for 38.3% and 22.2% of overseas sales, respectively. Sales in Asia, excluding Japan, and other regions edged up 0.5% to represent 39.5% of overseas sales. Domestic sales increased 9.7% and accounted for 53.4% of net sales. Domestic sales growth began to slow during the second half of the term, while the pace of overseas sales growth accelerated.

In the Data Processing Equipment category, sales declined 9.1%. Calculators recorded lower results in Japan and overseas, and sales of word processors were slightly below the previous

term. Lower levels of handy terminal sales also contributed to the decline. Domestic sales fell 13.6%, with overseas sales edging down 2.8%.

Sales in Electronic Timepieces climbed 48.1% on the back of strong growth in Japan and overseas for the G-Shock Series. Sales of pagers declined. Category sales were up 60.6% in Japan and 38.4% overseas.

Visual and Communications Equipment declined 12.1%, following 83.8% growth in the previous term. Domestic sales for the category increased 1.0%, supported by shipments of CASSIOPEIA Handheld PCs and sales growth in PHS handsets. Sales of digital cameras declined in Japan and overseas. Overseas sales for the category fell 19.5%, compared with a 120.4% rise during the previous term.

Sales in the Electronic Components and Others category advanced 10.7%. Domestic sales were up 8.9%, owing largely to substantial growth for TFT-LCD modules used in portable electronic devices. Overseas sales grew 14.1%, supported by growth in electronic musical instruments and audio equipment.

SALES BY PRODUCT CATEGORY

		Millions of yen		
		1998	1997	1996
Data processing equipment		¥143,205	¥157,606	¥166,474
	Domestic	80,059	92,666	102,954
	Overseas	63,146	64,940	63,520
Electronic timepieces		164,223	110,921	90,610
	Domestic	77,384	48,174	40,818
	Overseas	86,839	62,747	49,792
Visual and communications equipment		63,197	71,905	39,118
	Domestic	26,125	25,873	18,237
	Overseas	37,072	46,032	20,881
Electronic components and others		131,387	118,673	115,725
	Domestic	84,634	77,701	68,119
	Overseas	46,753	40,972	47,606
Total		¥502,012	¥459,105	¥411,927
	Domestic	268,202	244,414	230,128
	Overseas	233,810	214,691	181,799

Analysis of Net Income

The cost of sales ratio declined 5.6 percentage points to 65.6%. Higher profitability on sales was the result of a greater proportion of high-value-added products, such as mainline digital watches, the benefits of the weaker yen on overseas sales and an improved cost structure in LCD operations.

Selling, general and administrative expenses as a percentage of net sales increased 0.3 percentage point to 21.4%, owing largely to active advertising and promotional campaigns for consumer products. Research and development expenses were 4.6% of net sales at ¥22,973 million, compared with 4.2% of net sales during the previous term.

Operating income climbed 166.2% to ¥42,491 million, and the lower cost of sales ratio led a 5.0-percentage-point improve-

ment in the operating margin, to 8.5%.

COMMON-SIZE ANALYSIS OF INCOME STATEMENTS

	Net sales = 100.0		
	1998	1997	1996
Net sales	100.0	100.0	100.0
Cost of sales	65.6	71.2	73.1
SG&A expenses	21.3	21.1	21.4
R&D expenses	4.6	4.2	4.3
Operating income	8.5	3.5	1.2
Income before income taxes	6.9	2.4	1.1
Net income	2.3	0.8	0.2

Net financial expenses (interest and dividend income minus interest expense) declined ¥1,627 million to ¥1,929 million, reflecting a stronger cash position and a decline of 0.2 percentage point in the average interest rate on interest-bearing debt to 2.1%. However, this improvement was offset by a ¥568 million decrease in the foreign exchange gain—net, to ¥3,560 million, a

¥635 million rise in losses on the disposal and devaluation of inventories, to ¥4,973 million, and an increase of ¥3,606 million in other—net expenses, to ¥4,651 million. In aggregate, other expenses, net of other income, increased ¥3,182 million to ¥7,993 million.

INTEREST COVERAGE

	Millions of yen		
	1998	1997	1996
Operating income	¥42,491	¥15,964	¥5,025
Interest and dividend income	2,969	1,674	1,731
Total	¥45,460	¥17,638	¥6,756
Interest expense	4,898	5,230	5,400
Interest coverage (times)	9.28	3.37	1.25

Income before income taxes rose 209.3% to ¥34,498 million, and the effective tax rate was 66.0%. Consequently, net income climbed 217.2% to ¥11,738 million.

Shares outstanding at fiscal year-end increased by 24 thousand shares owing to the conversion of convertible bonds. Potential dilution, assuming that all convertible bonds outstanding are converted into common stock, declined from 9.3% to 5.7% of shares outstanding. The majority of dilution remaining was associated with a 1.9% domestic convertible bond due in February 2004 with a conversion price of ¥1,502.4. Net income per share was ¥42.13, compared with ¥13.33 in the previous term.

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. Casio Lease Co., Ltd., which engages in the leasing of computer systems, is the principal company in the latter group. For the fiscal year in review, there were 58 consolidated subsidiaries and eight affiliates accounted for by the equity method, compared with 61 consolidated subsidiaries and nine equity-method affiliates during the previous term.

The profitability of Group companies improved considerably during the term, reflecting the following factors: (1) Strong sales growth in electronic timepieces boosted output at manufacturing bases and raised the profitability of domestic marketing subsidiaries; (2) solid expansion of LCD sales led to an improved profit structure for related manufacturing subsidiaries; and (3) firm demand for Casio's office computers supported improved profitability at marketing subsidiaries.

Liquidity and Financial Resources

Analysis of Cash Flows

Net cash provided by operating activities was ¥71,804 million, which was ¥32,460 million above the previous term. Depreciation was ¥30,442 million, a slight increase from the previous term. Of this, the depreciation of leasing assets, including systems that are leased to customers, was ¥15,328 million, compared with ¥15,657 million a year earlier. Among changes in operating assets and liabilities, cash was provided by a decrease in notes and accounts receivable of ¥6,289 million, by an increase in notes and accounts payable of ¥12,599 million, and by an increase in income taxes payable of ¥13,864 million. An increase in inventories, reflecting growing sales of popular products, used cash of ¥7,294 million. Growth in the book value of inventories, however, was limited by the loss on disposal and devaluation of inventories of ¥4,973 million.

Net cash used in investing activities was ¥55,941 million, an increase of ¥30,583 million from the previous term. Acquisitions of property, plant and equipment used cash of ¥51,913

million, which included ¥21,461 million for the land and building of the new headquarters. However, of this amount, ¥21,237 million was provided by a decrease in long-term loans receivable, reflecting prior-period cash outlays. The second-largest use of cash in this category was an increase in marketable securities of ¥30,594 million, consisting mostly of money market instruments. Capital investment included ¥17,947 million (on a contract basis) for leasing assets, compared with ¥16,372 million during the previous term.

Net cash provided by financing activities was ¥300 million, compared with net cash used in financing activities of ¥5,783 million in the previous term. The largest source of cash in the category was ¥70,000 million in proceeds from issuance of bonds, which was offset by a net decrease in short-term borrowings of ¥35,805 million, redemption of bonds of ¥24,567 million and payments of long-term debt of ¥12,853 million.

In aggregate, cash and time deposits at end of year increased ¥15,993 million to ¥92,222 million.

CASH FLOW AND CAPITAL INVESTMENT

	Millions of yen		
	1998	1997	1996
Net Income	¥11,738	¥ 3,700	¥ 695
Depreciation	30,442	30,297	27,193
Cash flow	42,180	33,997	27,888
Capital investment	53,824	25,937	29,028

Note: Capital investment for fiscal 1998 included ¥21,461 million for the acquisition of the land and building of the new headquarters in December 1997. Of this amount, expenditures of ¥21,237 million had been completed in prior periods and recorded as long-term loans receivable on the balance sheets.

Analysis of Financial Position

Largely owing to the increases in marketable securities and in cash and time deposits, total current assets increased ¥44,305 million to ¥357,682 million. At the same time, total current liabilities declined ¥32,031 million to ¥232,515 million. The

two largest factors in this decline were lower levels of short-term borrowings and of long-term debt due within one year. Consequently, net working capital increased ¥76,336 million to ¥125,167 million, and the current ratio increased from 1.18 to 1.54 times.

INTEREST-BEARING DEBT

	Millions of yen		
	1998	1997	1996
Short-term borrowings	¥ 98,368	¥134,173	¥117,836
Bonds due within one year	—	24,592	31,740
Long-term loans due within one year	10,689	10,135	6,422
Long-term bonds	93,992	24,002	48,626
Long-term loans	22,783	28,979	21,864
Subtotal	¥225,832	¥221,881	¥226,488
Export discount bills	6,899	7,083	5,474
Total	¥232,731	¥228,964	¥231,962
Interest-bearing debt/total assets (%)	42.8	45.4	46.3
Interest on interest-bearing debt (%)	2.1	2.3	2.6

Interest-bearing debt (long-term debt, short-term borrowings, long-term debt due within one year and export discount bills) increased ¥3,767 million to ¥232,731 million.

Total assets grew 8.1% to ¥537,013 million as a result of higher levels of current assets and of net property, plant and equipment, which included the land and building for Casio's new corporate headquarters. Net property, plant and equipment accounted for 27.2% of total assets, compared with 25.6% at the end of the previous term. Owing primarily to the conversion of

long-term loans receivable to ownership of the land and building for the new headquarters, total investments and other assets declined ¥23,895 million to ¥26,719 million.

Return on assets improved 1.52 percentage points to 2.27%, primarily the result of a 1.5-percentage-point improvement in the net income margin to 2.3%.

Total shareholders' equity increased 4.7% to ¥182,657 million, and return on equity improved 4.44 percentage points to 6.57%.

EFFICIENCY AND RETURN MEASURES

	1998	1997	1996
Return on equity (%)	6.57	2.13	0.40
Return on assets (%)	2.27	0.75	0.14
Equity ratio (%)	34.0	35.1	34.7
Asset turnover (times)	0.97	0.93	0.86
Inventory turnover (months)	3.60	3.54	4.21

STOCK PRICE RANGE

Year	Month	Yen	
		High	Low
1997	6	¥1,020	¥ 910
	7	1,190	960
	8	1,260	1,030
	9	1,140	983
	10	1,140	1,000
	11	1,060	970
	12	1,070	895
1998	1	1,120	791
	2	1,090	990
	3	1,180	1,070
	4	1,180	1,100
	5	1,320	1,127