Years ended March 31, 1998 and 1997
Casio Computer Co., Ltd.

1. Basis of consolidated financial statements

The Company, a Japanese corporation, maintains its accounting records and prepares its financial statements in Japanese yen in conformity with accounting principles generally accepted in Japan. The accompanying consolidated financial statements have been translated from the consolidated financial statements that are prepared for Japanese domestic purposes, in accordance with the provisions of the Securities and Exchange Law of Japan and filed with the Minister of Finance of Japan. Certain modifications, including presentation of the consolidated statements of shareholders' equity and cash flows, have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan.

The financial statements are stated in Japanese yen. The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the approximate prevailing exchange rate at March 31, 1998, which was ¥132 to $1.

The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Certain reclassification has been made in the 1997 consolidated financial statements to conform to 1998 presentation.

2. Significant accounting policies

Consolidation—The consolidated financial statements of the Company include the accounts of its significant subsidiaries (together with the Company, the "Group"). Intercompany transactions and accounts have been eliminated. Investments in affiliated companies (20% to 50% owned) are stated at cost adjusted for equity in undistributed earnings and losses from the date of acquisition.

Foreign currency translation—Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the balance sheet date. Long-term receivables and payables denominated in foreign currencies are translated at historical exchange rates, except that the long-term debt covered with forward exchange contracts are translated at the contracted forward rates. Realized exchange gains and losses are reflected in the statements of income. Unrealized exchange gains on forward contracts are deferred and amortized over the period to maturity of the bonds.

Translation of foreign currency financial statements into Japanese yen is made in accordance with the requirement of Japanese accounting standards. Under the requirement, all assets and liabilities are translated at the exchange rate prevailing at the balance sheet date. Revenues and expenses have been translated at the exchange rates prevailing during the year.

Translation differences arising from the translation of foreign currency balance sheets and statements of income are stated in the consolidated balance sheets.

Marketable securities—Marketable equity securities included in marketable securities in the current assets and those included in noncurrent assets are carried at the lower of moving average cost or market. Other marketable securities are stated at cost, which approximates market.

Allowance for doubtful accounts—The Company and its domestic subsidiaries provide for doubtful accounts principally at an estimated amount of probable bad debt plus the maximum amount deductible under Japanese tax regulations. Foreign subsidiaries provide for doubtful accounts at an estimated amount of probable bad debt.

Inventories—Inventories are stated principally at the lower of cost (first-in, first-out) or market (replacement cost or net realizable value).

Property, plant and equipment—Property, plant and equipment is stated at cost. Depreciation is determined by the declining balance method at rates based on estimated useful lives except for the leased equipment. The leased equipment is depreciated by the straight-line method over the lease term.

Employees' severance and retirement benefits—Under the terms of the employees' severance and retirement plan, eligible employees are entitled under most circumstances, upon mandatory retirement or earlier voluntary severance, to severance payment based on compensation at the time of severance and years of service.

Employees' severance and retirement benefits of the Company and some of its consolidated subsidiaries are covered by two kinds of pension plans. Remaining consolidated subsidiaries mainly provide for the allowance for employees' severance and retirement benefits in amount required had all employees retired voluntarily at the balance sheet date. Certain of such consolidated subsidiaries cover a part of employees' severance and retirement benefits by a pension plan. Excess portion of allowance for employees' severance and retirement benefits due to introduction of the pension plan has been amortized on a straight-line basis over the amortization period of prior service costs.

Accounting for certain lease transactions—Finance leases, which do not transfer titles to lessees, are accounted for in the same manner as operating leases under accounting principles generally accepted in Japan.

Income taxes—Taxes on income consist of corporation, inhabitants and enterprise taxes.

Income taxes payable in the accompanying balance sheets represent the amount currently payable. Allowance for income taxes—noncurrent in the accompanying balance sheets represent income taxes applicable to the long-term unrealized exchange gains.

Deferred income taxes are provided for the items relating to intercompany profit elimination in connection with calculation of consolidated results of operations. In addition, some foreign subsidiaries recognize the deferred income taxes in accordance with accounting practices prevailing in their respective countries of domicile.

Appropriations of retained earnings—Appropriations of retained earnings are accounted for and reflected in the accompanying consolidated financial statements when approved by the shareholders.

Amounts per share of common stock—Net income per share of common stock has been computed based on the weighted average number of shares of common stock outstanding during each fiscal year (less the treasury stock). For diluted net income per share, the number of shares outstanding is adjusted to assume the conversion of the convertible bonds and the exercise of warrants. Related interest expense, net of income taxes, is eliminated.

Cash dividends per share represent the actual amount applicable to the respective years.

3. Inventories

Inventories at March 31, 1998 and 1997 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	**1998**
Finished products	**¥ 65,075**	¥ 62,448	**$492,992**
Work in process	**14,153**	12,699	**107,220**
Materials and supplies	**19,548**	21,308	**148,091**
	¥ 98,776	¥ 96,455	**$748,303**

4. Marketable securities

Book value and market value of marketable equity securities at March 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	**1998**
Current:			
Book value	**¥ 5,358**	¥ 5,686	**$40,591**
Market value	**6,815**	7,290	**51,629**
Unrealized gain	**¥ 1,457**	¥ 1,604	**$11,038**
Noncurrent:			
Book value	**¥ 5,509**	¥ 6,118	**$41,735**
Market value	**5,877**	7,035	**44,523**
Unrealized gain	**¥ 368**	¥ 917	**$ 2,788**

5. Derivative transactions of the Company

Status of derivative transactions—The Company utilizes interest rate swap and swaption contracts as derivative transactions, in order to hedge interest rate risks arising from normal business transactions and to improve efficiency of utilization of available funds.

The Company also utilizes forward foreign currency contracts and currency options, in order to hedge currency fluctuation risks arising from export of products and materials for products, in addition to hedging through increase in overseas production and overseas procurement of materials.

The derivative transactions are solely made with highly rated financial institutions, therefore, the Company does not expect any credit risks.

The Company utilizes derivatives following the internal regulation for derivatives, which stipulates policy, objective, scope, organization, procedures, and financial institutions to deal with, and has a reporting system for derivative transactions reflecting proper internal control functions.

Market value of derivative transactions—The aggregate amounts contracted to be paid or received and the fair value of derivative transactions in Japanese yen of the Company at March 31, 1998 and 1997 were as follows:

Currency related derivatives:

	Millions of yen							
	1998				1997			
	Contract amount				Contract amount			
	Total	Due after one year	Market value	Unrealized gain (loss)	Total	Due after one year	Market value	Unrealized gain (loss)
Forward contracts:								
To sell:								
U.S. dollars	**¥3,106**	**—**	**¥3,174**	**¥(68)**	¥9,382	—	¥9,757	¥(375)

Interest rate swap and option related derivatives:

	Millions of yen							
	1998				1997			
	Contract amount				Contract amount			
	Total	Due after one year	Market value	Unrealized gain (loss)	Total	Due after one year	Market value	Unrealized gain (loss)
Interest rate swaps:								
Receive fix/Pay float	**—**	**—**	**—**	**—**	¥10,000	¥10,000	—	—
Receive float/Pay float	**¥28,000**	**¥28,000**	**¥(394)**	**¥(394)**	—	—	—	—
Interest rate swaption:								
To sell:								
Receive fix/Pay float	**5,000**	**5,000**	**(42)**	**(27)**	2,000	—	—	—
Receive float/Pay float	**—**	**—**	**—**	**—**	3,000	—	—	—
	¥33,000	**¥33,000**	**¥(436)**	**¥(421)**	¥15,000	¥10,000	—	—

6. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 1998 consisted of short-term notes bearing an average interest rate of 2.65% per annum and commercial paper bearing an interest rate of 5.80%. The Group has had no difficulty in renewing such notes when such renewal has been considered advisable.

Long-term debt at March 31, 1998 and 1997 consisted of:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	**1998**
2.9% convertible bonds due in 1998	**¥ —**	¥ 14,592	**$ —**
1.9% convertible bonds due in 2004	**23,811**	23,811	**180,386**
3.0% U.S. dollar convertible bonds due in 2000 ($730 thousand at March 31, 1998 and $770 thousand at March 31, 1997)	**181**	191	**1,371**
6.3% bonds due in 1997	**—**	10,000	**—**
2.0% bonds due in 2002	**50,000**	—	**378,788**
2.15% bonds due in 2004	**10,000**	—	**75,758**
2.575% bonds due in 2007	**10,000**	—	**75,758**
Loans principally from banks at interest rates of 0.5% to 5.97% maturing serially through 2003	**33,472**	39,114	**253,575**
	127,464	87,708	**965,636**
Less amount due within one year	**10,689**	34,727	**80,977**
	¥116,775	¥ 52,981	**$ 884,659**

The indentures covering the 1.9% and 3.0% convertible bonds provide, among other conditions, for (1) conversion into shares of common stock at the conversion prices per share of ¥1,502.4 ($11.38) and ¥1,488.9 ($5.94 at the fixed rate of ¥250.65 to $1), respectively (subject to change in certain circumstances), and (2) redemption at the option of the Company commencing March 1996 and March 1988, respectively, at prices ranging from 107% and 104%, respectively, to 100% of the principal amount.

The annual maturities of long-term debt at March 31, 1998 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
1999	¥10,689	$ 80,977
2000	16,157	122,402
2001	4,980	37,727
2002	175	1,326
2003	50,000	378,788
Thereafter	45,463	344,416

7. Income taxes

The normal effective tax rate of income taxes on income before income taxes was approximately 51% for the years ended March 31, 1998 and 1997, respectively. Actual effective tax rates were 66.0% and 66.8% for the years ended March 31, 1998 and 1997, respectively.

Differences between normal effective tax rates and actual effective tax rates are attributable primarily to temporary differences in recognizing revenues and expenses for financial statements and tax returns.

8. Employees' severance and retirement benefits

The annual contributions to the funded pension plan, which consist of current period costs and amortization of prior service costs and interest thereon over 20 years, are determined by the actuarial method and charged to income when paid.

Charges with respect to severance and retirement benefits included in costs and expenses were ¥2,268 million ($17,182 thousand) and ¥2,320 million for the years ended March 31, 1998 and 1997, respectively.

9. Shareholders' equity

At the current conversion prices, 15,972 thousand shares of common stock were issuable at March 31, 1998 upon full conversion of the 1.9% and 3.0% convertible bonds.

In accordance with the Commercial Code of Japan (the "Code"), certain issues of shares of common stock, including conversions of convertible bonds and exercise of warrants, are required to be credited to the common stock account to the extent of the greater of par value or at least 50% of the proceeds. The remaining amounts are credited to additional paid-in capital.

Under the Code, the Company is required to appropriate as legal reserve an amount equal to at least 10% of cash dividends and bonuses to directors and statutory auditors in each period until the reserve equals 25% of common stock. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders' meeting or transferred to the common stock by the resolution of Board of Directors. The amount of retained earnings on a nonconsolidated basis less the amount required for legal reserve is available for cash dividends. As a result, the retained earnings of the Company available for cash dividends at March 31, 1998 subject to shareholders' approval, amounted to ¥59,056 million ($447,394 thousand).

10. Lease transactions

The amounts of outstanding future lease payments and future lease receipts due at March 31, 1998 must be disclosed based on the amended accounting principle for consolidated financial statements.

The amounts of outstanding future lease payments due at March 31, 1998 and total lease expenses as lessee for the year ended March 31, 1998 were as follows:

	Millions of yen	Thousands of U.S. dollars
Future lease payments		
Within one year	¥27	$205
Over one year	52	394
Total	¥79	$599
Total lease expenses	¥24	$182

The amounts of outstanding future lease receipts due at March 31, 1998 and total lease income as lessor for the year ended March 31, 1998 were as follows:

	Millions of yen	Thousands of U.S. dollars
Future lease receipts		
Within one year	¥ 8,677	$ 65,735
Over one year	17,905	135,644
Total	¥26,582	$201,379
Total lease income	¥10,704	$ 81,091

11. Segment information

The Group's business segments consist of (1) manufacturing and marketing of electronic products (including data processing equipment, electronic timepieces, visual and communications equipment, electronic components and others) and (2) leasing. Information by business segment is not shown due to net sales, operating income and total assets of manufacturing and marketing of the electronic product segment being in excess of 90% of total net sales, operating income and total assets, respectively.

A summary of net sales, operating income and total assets by main areas of the sellers for the year ended March 31, 1998 was as follows:

	Millions of yen					
	Japan	North America	Europe	Asia	Elimination	Consolidated
For 1998						
Net sales:						
Outside customers	**¥381,886**	**¥ 76,042**	**¥ 29,872**	**¥ 14,212**	**¥ —**	**¥502,012**
Inside Group	**92,155**	**3,927**	**—**	**123,374**	**(219,456)**	**—**
Total	**474,041**	**79,969**	**29,872**	**137,586**	**(219,456)**	**502,012**
Costs and expenses	**436,476**	**79,175**	**29,088**	**132,858**	**(218,076)**	**459,521**
Operating income (loss)	**¥ 37,565**	**¥ 794**	**¥ 784**	**¥ 4,728**	**¥ (1,380)**	**¥ 42,491**
Total assets	**¥500,118**	**¥ 49,189**	**¥ 14,067**	**¥ 44,621**	**¥ (70,982)**	**¥537,013**

	Thousands of U.S. dollars					
	Japan	North America	Europe	Asia	Elimination	Consolidated
For 1998						
Net sales:						
Outside customers	**$2,893,076**	**$ 576,076**	**$ 226,303**	**$ 107,666**	**$ —**	**$3,803,121**
Inside Group	**698,144**	**29,750**	**—**	**934,652**	**(1,662,546)**	**—**
Total	**3,591,220**	**605,826**	**226,303**	**1,042,318**	**(1,662,546)**	**3,803,121**
Costs and expenses	**3,306,636**	**599,811**	**220,364**	**1,006,500**	**(1,652,091)**	**3,481,220**
Operating income (loss)	**$ 284,584**	**$ 6,015**	**$ 5,939**	**$ 35,818**	**$ (10,455)**	**$ 321,901**
Total assets	**$3,788,773**	**$ 372,644**	**$ 106,568**	**$ 338,038**	**$ (537,743)**	**$4,068,280**

A summary of net sales, operating income and total assets by geographic location of the sellers for the year ended March 31, 1997 was as follows:

	Millions of yen			
	Japan	Other countries	Elimination	Consolidated
For 1997				
Net sales:				
Outside customers	¥353,129	¥105,976	¥ —	¥459,105
Inside Group	71,641	94,137	(165,778)	—
Total	424,770	200,113	(165,778)	459,105
Costs and expenses	410,407	198,348	(165,614)	443,141
Operating income (loss)	¥ 14,363	¥ 1,765	¥ (164)	¥ 15,964
Total assets	¥450,861	¥107,974	¥ (61,888)	¥496,947

A summary of overseas net sales by geographic location of the customers for the years ended March 31, 1998 (and overseas net sales only for 1997) was as follows:

(The following overseas net sales represent net sales made outside Japan by the Group.)

	Millions of yen					
	1998					1997
	North America	Europe	Asia	Others	Total	Total
Overseas net sales	**¥ 89,556**	**¥ 51,872**	**¥ 43,047**	**¥ 49,335**	**¥233,810**	¥214,691
Net sales (consolidated)	**—**	**—**	**—**	**—**	**502,012**	459,105
Share of overseas net sales	**17.9%**	**10.3%**	**8.6%**	**9.8%**	**46.6%**	46.8%

	Thousands of U.S. dollars				
	1998				
	North America	Europe	Asia	Others	Total
Overseas net sales	**$ 678,454**	**$ 392,970**	**$ 326,114**	**$ 373,750**	**$1,771,288**
Net sales (consolidated)	**—**	**—**	**—**	**—**	**3,803,121**
Share of overseas net sales	**17.9%**	**10.3%**	**8.6%**	**9.8%**	**46.6%**

12. Commitments and contingent liabilities

At March 31, 1998, the Group was contingently liable for trade notes and export drafts discounted with banks in the amount of ¥6,899 million ($52,265 thousand) and as guarantor of others for bank loans in the amount of ¥837 million ($6,341 thousand).

13. Subsequent events

At the June 26, 1998 annual meeting, the Company's shareholders approved (1) the payment of a cash dividend of ¥12.50 per share aggregating ¥3,482 million ($26,379 thousand) to shareholders of record as of March 31, 1998, (2) the payment of bonuses to directors and statutory auditors totaling ¥150 million ($1,136 thousand) and (3) the transfer to legal reserve of ¥370 million ($2,803 thousand) from retained earnings and (4) the transfer to special reserve for retirement of shares of ¥27,120 million ($205,455 thousand) from retained earnings.

14. Additional information (Unaudited)

On June 22, 1988, evidence arose that approximately US$30 million was misappropriated to a third party. An investigation and efforts to recover these funds are in progress.

Although there are still uncertain factors, at June 22, 1998 losses for the Company are estimated to be approximately ¥2,000 million.

The Company will make every efforts to achieve its projected consolidated "ordinary income", which represents income from ordinary business activities for Japanese domestic financial reporting purposes, of ¥36,000 million ($272,727 thousand) and projected consolidated net income of ¥15,000 million ($113,636 thousand), for the year ending March 31, 1999.