

RESULTS OF OPERATIONS

ANALYSIS OF NET SALES In the fiscal year ended March 31, 2000, net sales declined 9.0% to ¥410,338 million.

Overseas sales declined 13.0%, with the overseas sales ratio down 2.0 percentage points to 43.7%, reflecting the adverse impact of the appreciation of the yen.

Sales declined in every major overseas market: by 12.4%

in North America, which accounted for 36.3% of overseas sales; by 21.1% in Europe, which made up 24.3% of overseas sales; and by 7.8% in Asia, excluding Japan, and other regions, which represented 39.4% of overseas sales.

Domestic sales were down 5.7% and accounted for 56.3% of net sales. However, domestic sales recorded growth in every category except Electronic Timepieces.

SALES BY PRODUCT CATEGORY

		Millions of yen		
		2000	1999	1998
Data processing equipment		¥151,735	¥155,848	¥143,205
	Domestic	93,625	91,876	80,059
	Overseas	58,110	63,972	63,146
Electronic timepieces		84,458	125,793	164,223
	Domestic	29,244	48,737	77,384
	Overseas	55,214	77,056	86,839
Visual and communications equipment		49,091	47,982	63,197
	Domestic	20,003	19,809	26,125
	Overseas	29,088	28,173	37,072
Electronic components and others		125,054	121,518	131,387
	Domestic	88,309	84,758	84,634
	Overseas	36,745	36,760	46,753
Total		¥410,338	¥451,141	¥502,012
	Domestic	231,181	245,180	268,202
	Overseas	179,157	205,961	233,810

Sales in the Data Processing Equipment category declined 2.6%, as a 9.2% decline in overseas sales offset a 1.9% rise in domestic sales. In Japan, growth was supported by strong performance in electronic dictionaries and improved results of system equipment, due in part to growth of high-speed color page printers targeting business users. Office computers and systems, including ADPS for strategic personnel management, also contributed to growth. Favorable performance in these product groups was partially offset by weakness in consumer products, especially word processors.

In the Electronic Timepieces category, sales fell 32.9% as a result of stagnant markets in Japan and overseas, and the effect of the stronger yen on overseas sales. Domestic sales fell 40.0% and overseas sales declined 28.3%.

Sales of Visual and Communications Equipment rose 2.3%. Domestic sales for the category increased 1.0%, as

sharp declines in PHS handsets and weak performance in digital cameras were offset by the successful launch of Casio's first cellular handset, a water- and shock-resistant model for the IDO/DDI Cellular Group's cdmaOne™ service, and strong sales performance of CASSIOPEIA® Pocket PCs. Overseas sales advanced 3.2%, despite the adverse impact of the yen's appreciation, supported by the market success of CASSIOPEIA® information appliances.

Sales in the Electronic Components and Others category increased 2.9%. Casio's proprietary HAST-LCDs have a dominant share of the small and medium-sized display market, and sales increased during the term from robust demand for digital camcorders and cameras. Sales of connecting devices for high-density mounting also increased, backed by rapid expansion in the cellular phone and notebook PC markets. Although electronic musical instrument sales recorded steady growth thanks to favorable results of

keyboards with key lighting systems, audio product sales decreased due to the negative effect of yen's appreciation on overseas sales. Domestic sales rose 4.2%, with overseas sales essentially unchanged.

ANALYSIS OF NET INCOME Although the cost of sales ratio worsened 0.8 percentage point to 68.7%, selling, general and administrative expenses as a percentage of net sales declined 1.1 percentage points to 23.6%. Research and development (R&D) expenses were ¥12,338 million, or 3.0% of net sales. The Company changed its method of

accounting for R&D in accordance with changes in accounting standards for R&D and software development in Japan. R&D expenses, recalculated in accordance with accounting methods used in the previous fiscal year, would have been ¥19,160 million, compared with ¥20,552 million in the previous term.

As a result of the above factors, despite the adverse impact of the yen's appreciation on the profitability of overseas sales, the operating income margin improved 1.9 percentage points to 4.7%, and operating income climbed 55.2%, or ¥6,926 million, to ¥19,477 million.

COMMON-SIZE ANALYSIS OF INCOME STATEMENTS

	Net sales = 100.0		
	2000	1999	1998
Net sales	100.0	100.0	100.0
Cost of sales	68.7	67.9	65.6
SG&A expenses	23.6	24.7	21.4
R&D expenses	3.0	4.6	4.6
Operating income	4.7	2.8	8.4
Income before income taxes	3.0	—	6.9
Net income	1.5	—	2.3

Net financial expenses (interest and dividends income minus interest expense) decreased ¥1,062 million to ¥2,086 million, as interest expense declined ¥959 million, reflecting both lower levels of debt and a 0.4 percentage point decline in the average interest rate to 1.7%. Expenses for the disposal and devaluation of inventories declined from ¥14,641 million in the previous term, which included

¥8,790 million in inventory devaluation at the parent company related to revising its product strategy, to ¥5,315 million. Other-net went from ¥3,825 million in net expenses in the previous fiscal year to ¥3,192 million in net other income. Consequently, despite a foreign exchange loss-net of ¥2,993 million, other expenses, net of other income, decreased ¥13,844 million to ¥7,202 million.

INTEREST COVERAGE

	Millions of yen		
	2000	1999	1998
Operating income	¥19,477	¥12,551	¥42,228
Interest and dividends income	1,928	1,825	2,969
Total	¥21,405	¥14,376	¥45,197
Interest expense	¥ 4,014	¥ 4,973	¥ 4,898
Interest coverage (times)	5.33	2.89	9.23

Owing to high growth in operating income and the sharp drop in other expenses, income before income taxes was ¥12,275 million, compared with a loss before income taxes of ¥8,495 million in the previous term. Net income

was ¥6,173 million.

Shares outstanding at fiscal year-end declined by 446 thousand shares mainly owing to the retirement of treasury stock. Potential dilution, assuming that all convertible

bonds outstanding are converted into common stock, was 5.8% of shares outstanding. All dilution is associated with 1.9% domestic convertible bonds due in February 2004 with a conversion price of ¥1,502.4. Net income per share was ¥22.73, compared with a net loss per share of ¥30.90 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. The Casio Lease Co., Ltd., which engages in the leasing of computer systems, is the principal company in the latter group.

Casio Micronics Co., Ltd. is engaged in the manufacture and sale of film devices, and provides bump processing. In recent years, strong demand has fueled high growth in sales to electronics companies outside the Casio Group.

For the fiscal year ended March 31, 2000, there were 67 consolidated subsidiaries and nine affiliates accounted for by the equity method, compared with 61 consolidated subsidiaries and nine equity-method affiliates during the previous term.

CASH FLOW AND CAPITAL INVESTMENT

	Millions of yen		
	2000	1999	1998
Net income (loss)	¥ 6,173	¥ (8,534)	¥11,738
Depreciation	30,220	31,001	30,442
Cash flow	36,393	22,467	42,180
Capital investment	35,546	31,212	53,824

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.

Net cash used in financing activities was ¥23,631 million. The largest use of cash in the category was a net decrease in short-term borrowings of ¥19,936 million, followed by payments of cash dividends of ¥3,400 million. In aggregate, cash and cash equivalents at end of year, including the effects on cash of changes in consolidation, decreased ¥4,959 million to ¥113,751 million.

LIQUIDITY AND FINANCIAL RESOURCES

ANALYSIS OF CASH FLOWS The statement of cash flows for the fiscal year under review was prepared in accordance with new standards for preparing statements of cash flows in Japan and is not comparable with statements for previous years, which were prepared voluntarily for the convenience of readers outside of Japan (See note 2).

Net cash provided by operating activities was ¥45,559 million, including income before income taxes of ¥12,275 million and depreciation of ¥31,926 million. Of this, the depreciation of leasing assets, including systems leased to customers as part of the Data Processing Equipment category, was ¥14,879 million, compared with ¥14,423 million a year earlier. An increase in notes and accounts payable, related to robust growth in the electronic components business, provided cash of ¥17,110 million.

Net cash used in investing activities was ¥26,478 million. Payments of acquisitions of tangible fixed assets used cash of ¥31,651 million, and payments of acquisitions of intangible fixed assets used cash of ¥2,822 million. A decrease in time deposits provided cash of ¥11,460 million. Capital investment included ¥20,166 million (on a contract basis) for leasing assets, compared with ¥17,863 million during the previous term.

ANALYSIS OF FINANCIAL POSITION Total current assets declined ¥10,173 million to ¥312,315 million, largely owing to a ¥21,860 million decrease in cash and time deposits. Inventories increased ¥4,683 million to ¥80,507 million, and inventory turnover worsened during the term after three consecutive years of improvement. To improve inventory management in coming terms, a supply chain

management (SCM) system went partly online in September 1999.

Net property, plant and equipment edged up ¥1,030 million to ¥142,901 million, accounting for 28.2% of total assets, compared with 28.0% at the end of the previous

term. Total investments and other assets increased ¥7,141 million to ¥40,263 million, including an increase of ¥4,760 million in long-term time deposits, and foreign currency translation adjustments rose ¥2,541 million.

Total assets edged up 0.1% to ¥507,105 million.

INTEREST-BEARING DEBT

	Millions of yen		
	2000	1999	1998
Short-term borrowings	¥ 66,580	¥ 88,014	¥ 98,368
Bonds due within one year	—	149	—
Long-term loans due within one year	10,372	16,743	10,689
Long-term bonds	123,811	123,811	93,992
Long-term loans	23,073	16,528	22,783
Subtotal	¥223,836	¥245,245	¥225,832
Export drafts discounted with banks	2,302	4,605	6,899
Total	¥226,138	¥249,850	¥232,731
Interest-bearing debt/total assets (%)	44.4	48.9	42.8
Interest on interest-bearing debt (%)	1.7	2.1	2.1

Total current liabilities were ¥182,562 million, or ¥8,104 million less than a year earlier, as a large decline in short-term borrowings offset a sharp rise in notes and accounts payable. However, lower total current assets led to a ¥2,069 million decline in net working capital to ¥129,753 million. The current ratio improved from 1.69 to 1.71 times.

Interest-bearing debt (long-term debt, short-term borrowings, long-term debt due within one year and export drafts discounted with banks) fell ¥23,712 million to ¥226,138 million, as management used strong free cash flow to retire short-term debt.

EFFICIENCY AND RETURN MEASURES

	2000	1999	1998
Return on equity (%)	3.63	—	6.57
Return on assets (%)	1.22	—	2.27
Equity ratio (%)	33.5	33.7	34.0
Asset turnover (times)	0.81	0.86	0.97
Inventory turnover (months)	3.43	2.97	3.60

The combination of a larger asset base and lower sales resulted in 0.05 point decline in asset turnover to 0.81 times.

With a net income margin of 1.5%, return on assets was 1.22%. The equity ratio was 33.5% compared with 33.7% a year earlier. Return on equity was 3.63%.

STOCK PRICE RANGE

Year	Month	Yen	
		High	Low
1999	6	¥ 980	¥ 817
	7	959	828
	8	849	762
	9	839	750
	10	810	715
	11	770	620
2000	12	909	675
	1	915	800
	2	1,288	860
	3	1,200	953
	4	1,305	1,031
	5	1,265	1,013