

## **Operating Results and Financial Position**

### **Performance Highlights for Fiscal 2004**

The Japanese economy during fiscal 2004 has shown some signs of recovery, such as higher exports prompted by a strong US economy, the rallying stock market and improving corporate performance. Moreover, with consumer spending gradually picking up after a prolonged slump, there are early signs of a prospective full-fledged economic recovery.

The market environment for Casio's businesses featured significant growth in the digital home electrical appliance market (digital cameras, cellular phones, LCD TVs, and DVDs). Semi-conductors and electronic components also saw stronger demand, driven by the positive performance of digital home electrical appliances, and the overall market headed toward recovery.

In this environment, the Casio Group has been strongly promoting and developing its strategic businesses, such as 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 improving capital efficiency and radical reductions in fixed costs.

As a result, consolidated net sales grew 18.8% year-on-year to 523.5 billion yen in fiscal 2004 on especially strong performance in the above-mentioned strategic businesses.

Viewing results by segment, sales in the Electronics segment were 405.6 billion yen, up 15.8% year-on-year. In the Consumer category, Casio received high acclaim as a driving force in the market for smaller, thinner digital cameras, winning the strong support of users worldwide. The company launched several new products, including the EX-Z3, which combines superior portability with high performance to become Japan's top selling model in 2003, its successor the EX-Z4, which allows users to take pictures with resolution one grade higher than the EX-Z3, and the EX-Z30 and EX-Z40, which have a battery life 2.5 times longer than previous models. Electronic dictionaries enjoyed a high market share and achieved significant growth thanks to an industry-leading lineup of more than 30 models and to models that combine optimal content for specific users such as students and business professionals. Products designed for overseas markets in South Korea and Germany also recorded favorable sales. Both digital cameras and electronic dictionaries achieved sales that surpassed expectations, and sales in the overall Consumer category were 188.9 billion yen, up 32.6% year-on-year. In the Timepieces category, sales were 70.1 billion yen, up 2.4% year-on-year. The market expanded steadily with radio-controlled watches achieving high growth on strong sales of the best-selling G-Shock series, The G. Casio enhanced the product lineup, including the November 2003 launch of a solar-powered radio-controlled watch using its proprietary miniaturization technology. This watch is equipped with highly sensitive radio wave reception functions and a large-capacity, solar powered system and features an ultra-thin and stylish finish. Aggressive efforts to expand in overseas markets, including Europe with models that can receive radio waves in both the UK and Germany, in addition to the US, resulted in sales growth. In the Mobile Network Solutions (MNS) category, sales were 97.8 billion yen, up 11.4% year-on-year. Sales

growth can be attributed to strong sales of a 3G cellular phone equipped with a megapixel camera launched in May 2003, responding swiftly to market needs as evidenced by the release of the first model equipped with a 2-megapixel camera for the au brand in December, and focusing on expanding in overseas markets with strong sales in South Korea as a result of a partnership with South Korea's LG TeleCom Ltd. In the System Equipment category, sales fell 5.1% year-on-year to 48.7 billion yen due to the impact of the global slowdown in IT-related demand. However, the company sought to provide a variety of solutions, including developing two high-luminosity mobile projector models and a multi-purpose projector camera equipped with a 4-megapixel CCD in the second half of 2003, which are expected to establish a fully-fledged mobile genre in the data projector market. The target markets are business and education, and sales commenced in December 2003 under the name CASSIOPEIA® PRO.

In the Electronic Components and Others segment, sales were 117.9 billion yen, up 30.4% year-on-year. Sales in the Electronic Components category rose 43.5% year-on-year to 86.9 billion yen. In the TFT business, Casio claimed a roughly 50% share of the digital camera monitor market, and sales increased significantly due to the development of overseas markets for cellular phones. The film device business at Casio Micronics also performed well and recorded substantial sales growth, as chip on film (COF), the firm's leading product, outperformed initial expectations due to recovering demand for personal computers. In the Others category, sales increased by 3.9% year-on-year to 31.0 billion yen. These firm results can be attributed to substantial growth in the electronic components business of Yamagata Casio Co., Ltd., offsetting the impact of reorganizing the independent business of Aichi Casio Co., Ltd., through its production sourcing partnership with Flextronics.

As a result of efforts to substantially increase added value by enhancing product strength in strategic businesses and to strengthen earning potential by promoting greater management efficiency, operating income was 25.2 billion yen, up 41.6% year-on-year, in the Electronics segment, and 7.0 billion yen, up 46.8% year-on-year, in the Electronic Components and Others segment. Total consolidated operating income, allowing for elimination or unallocated amount, was 27.4 billion yen, up 53.5% year-on-year. The company recorded ordinary income of 21.4 billion yen, up 74.8% year-on-year, and best-ever current net income 14.1 billion yen, up 151.1% year-on-year.

### **Financial Position**

Net cash provided by operating activities in fiscal 2004 was 61.7 billion yen in income. The main components of this included 22.5 billion yen in income before income taxes and minority interests, 19.4 billion yen in depreciation expenses, and a 20.7 billion yen increase in working capital as a result of greater efficiency in inventory. Meanwhile, net cash used in investing activities recorded 15.6 billion yen in expenditure. The main components of this included 13.3 billion yen for acquisition of tangible fixed assets. Net cash used in financing activities recorded 17.6 billion yen in expenditure. The main components of this included 10.1 billion yen in decrease in interest-bearing debt, 3.3 billion yen in payments for cash dividends, and 4.1 billion yen in payments for acquisitions of treasury stock.

As a result, cash and cash equivalents at the end of fiscal 2004 stood at 123.1 billion yen, an increase of 26.7 billion yen compared with the end of the previous year.

### **Forecasts for Fiscal 2005 Business Results**

In terms of the future business environment, the overseas economy is expected to see a general recovery, with the US economy to remain steady. There are also some hopes in Japan in terms of corporate performance, personal consumption, and capital expenditure. However, political instability in the Middle East, foreign exchange trends, and other factors remain difficult to forecast.

In this environment, Casio will take advantage of its core competencies to aggressively implement a variety of strategies in all business segments, including strategies to develop innovative products and improve earnings from a long-term perspective. The company will also strive to improve efficiency and outcomes, seek to create new value, grow business results and improve management structure.

Casio will implement the following strategies in main business segments.

(a) For digital cameras, the company will push forward in expanding overseas markets, where substantial growth is expected, in addition to the Japanese market by releasing cutting-edge models that combine portability and high performance.

(b) For solar-powered radio-controlled watches, the company will promote the conversion to these watches in global markets by releasing ultra-thin models, full metal models, and multi-band models and by expanding the market for women's watches.

(c) For cellular phones, the company established Casio Hitachi Mobile Communications Co., Ltd. as a joint development company with Hitachi in April 2004. Combining the strengths of both companies, the new firm is working to develop competitive products that apply the latest technological innovations. Casio also aims to enhance earning capacity by reducing development costs and increasing speed through the development of common platforms and other means.

(d) For TFT LCDs, demand for digital camera monitors, for which Casio has the top market share, is expected to expand steadily going forward, and the company will continue efforts to expand business in this area.

Current results forecasts for fiscal 2005 are as below.

Net sales:	610.0 billion yen (up 16.5% year-on-year)
Operating income:	40.0 billion yen (up 45.5% year-on-year)
Ordinary income:	34.0 billion yen (up 58.5% year-on-year)
Net income:	18.0 billion yen (up 27.0% year-on-year)

Exchange rates for the next period are estimated at US\$1 = ¥108 and euro1 = ¥127.

Note: Forecasts for business results are based on information available at the present time, and actual results may differ significantly from forecasts. Key factors affecting actual results may include, but are not limited to, the economic circumstances surrounding the company's business, fluctuations in the exchange rates of major

currencies, including the yen-dollar rate, and significant changes in product prices. The following factors may affect actual results.

- (a) Trends in the economic and social conditions as well as laws, regulations and tax systems in major markets in Japan, Europe, the US, Asia and elsewhere.
- (b) Fluctuations in product supply and demand and significant changes in product prices in major markets.
- (c) Rapid changes in technology, the development of products that use new technology and the timing of manufacturing and market introduction.
- (d) Fluctuations in the exchange rates of major currencies, including the yen-dollar rate.