

Management Policy

Basic Management Policy

Since Casio's foundation, its corporate creed has been "Creativity and Contribution." Casio's mission is to seek growth as a company, increase corporate value, and remain remarkable and attractive for all investors and customers by using innovative ideas and advanced technology to create products and services that are enjoyable for people around the world.

In the future, Casio will respond promptly and precisely to changes in the business environment, ensuring timely provision of high quality products, content, and solutions with high added value that are based on the company's proprietary technologies. Casio is known for introducing change to both consumer lifestyles and business methods. The company seeks to share excitement with all of its stakeholders by contributing to the development of the global network society.

Basic Policy on Allocation of Company Profit

Casio has positioned the maintenance and expansion of profits for all of its shareholders as an important challenge, and is striving to improve business performance and strengthen its financial structure. Consequently, the company's dividend policy is based on maintaining stable dividends, improving the allocation of profit by taking factors such as profit levels and financial position into overall consideration, and strengthening returns for shareholders.

The company allocates internal reserves to the research and development and investment required for corporate stability and growth.

Philosophy and Policy on Lowering the Investment Unit

Extending the classes of investors and increasing the liquidity of the company's stock is an important issue in its capital policy, and Casio recognizes that lowering the investment unit is an effective means of stimulating activity in the stock market. In light of current trends in the company's stock price and the requirements of market conditions, Casio lowered the investment unit from 1,000 shares to 100 shares effective September 1, 2004.

Medium and Long-Term Management Strategy and Issues to Be Addressed

Casio considers increasing its earning capacity and strengthening its financial structure to be pressing issues, and the entire company is united in promoting the strategies described below.

(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. During the first half of fiscal 2005, Stable Businesses accounted for 46% of net sales and Expansive Businesses accounted for 54%. Stable Businesses had an operating income margin of 11.0% and Expansive Businesses a margin of 5.4%. Going forward, the company aims to secure stable profits in Stable Businesses while increasing operating income in Expansive Businesses. Casio is focused on the near-term goal of achieving 10% operating income margins in all its businesses.

As a measure to improve earning capacity, Casio is striving to significantly reduce the cost of sales ratio by optimizing costs starting from the time development of new products begins, through collaboration between the Production and Purchasing H.Q., established in December 2003, and the Product Development H.Q., by maintaining sales prices, and by reducing procurement costs. Specifically, the following measures are high priority.

- (a) Marketing differentiated products by enhancing technological and product planning power
- (b) Rigorously reducing product costs from the development stage
 - Pursuing scale effects through the selection, concentration, and narrowing down of suppliers
 - Promoting cost cutting by expanding local procurement overseas
 - Reducing the number of components and shorten development lead times

(2) Strengthening Financial Structure

Casio is strongly promoting the strategies described below with the aim of strengthening its financial structure.

- (a) Improving operating margins
- (b) Reducing front-loaded working capital, including prompt collection of notes and accounts receivables and inventory reductions
- (c) Reducing fixed costs and improving cost competitiveness through integrated management of purchasing operations and reductions in purchasing cycle time
- (d) Effective and efficient capital expenditure

The company is endeavoring to enhance cash flow through these strategies with the aim of reducing interest-bearing debt by 40 billion yen and improving its equity ratio and debt/equity (D/E) ratio by the end of fiscal 2006, thus strengthening its financial base.

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.

Basic Philosophy on Corporate Governance and Status of Strategy

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. The company has implemented a range of measures with the aim of enhancing corporate governance.

(1) Implementation Status of Corporate Governance Strategies

Casio has established a corporate governance framework that combines directors and auditors with an original corporate officer system and internal audit system.

The board of directors is structured to ensure rational and rapid management decision-making. The company has adopted a decision-making process in which important management issues are discussed at meetings of the board of directors that are attended by directors and corporate auditors. Important matters related to the execution of business are discussed at meetings of corporate officers attended by corporate officers, directors, and corporate auditors in order to facilitate smooth company-wide adjustments and strategy implementation.

The board of corporate auditors includes two external auditors. In line with auditing policy and the division of duties determined by the board of corporate auditors, corporate auditors attend the meetings of the board of directors and corporate officers. In addition, they study the status of operations and assets and conduct rigorous audits using interviews with and reports from directors, and reviews of documentation related to resolutions on important matters. External auditors do not have any special interests in Casio.

The internal audit division conducts audits on the status of organizational operations based on laws and regulations as well as in-house administrative standards for organizational functions and other matters, makes evaluations and provides guidance for improvements. The division in charge of each operation is largely responsible for audits of quality, the environment, safety, security, and other issues in cooperation with the manager responsible for the organization. Casio has also extended the various in-house standards on quality, the environment, safety, and security to Casio Group companies.

Casio continues to strive to provide timely and accurate information about business conditions to shareholders and investors by improving results briefings, annual reports and the company's website.

In this way, Casio continues to take a variety of initiatives to enhance corporate governance.

(2) Efforts to Enhance Corporate Governance over the Past Year

For Casio, corporate social responsibility is a key pillar of corporate management, and in an effort to bolster its activities in this area, the company established the CSR Operation Section in April 2004 in a bid to improve its company-wide organization. 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. Further, the company replaced its previous Environmental Report with the Sustainability Report, which was published in July 2004, in order to integrate reporting on the environmental, economic, and social aspects of the company's activities.