

Qualitative Information about Consolidated Operating Results

Up through the third quarter, Japan's economy showed a recovery trend, with improvement in corporate earnings and increase in capital expenditures driven by growth in exports. However, such conditions as high oil prices, sluggish overseas economic growth, and flat consumer spending make the future of the economy unclear. Turning to Casio's markets, the overall business environment was challenging, as the rate of growth of digital home electrical appliances (digital cameras, cellular phones, LCD TVs, and DVDs), which had led the market with their strong growth, slowed due to factors such as a sudden fall in prices and inventory adjustments.

In this market environment, the Casio Group has been strongly promoting and developing a strategy of focusing on high-value-added and differentiated products in its five strategic businesses: timepieces, digital cameras, electronic dictionaries, cellular phones, and TFT LCDs. At the same time, the company is focused on enhancing management efficiency and strengthening earning potential. On the strength of these efforts, consolidated net sales for the first three quarters of fiscal 2005 were up 12.7% over the same period of fiscal 2004, to ¥415.4 billion. Driven by group-wide efforts on business reform strategies aimed at greater management efficiency, and substantial improvement in added value by enhancing product strength in strategic businesses, operating income in the Electronics segment for the three quarters was ¥25.4 billion, up 56.3% year-on-year, and in the Electronic Components and Others segment, jumped to ¥7.2 billion, up 48.4% year-on-year. Total consolidated operating income, allowing for elimination or unallocated amount, was ¥28.3 billion, up 59.5% year-on-year. Non-operating income and expenses also improved due to strategies to strengthen the company's financial structure. As a result, ordinary income improved 94.0% to ¥24.6 billion and net income rose 95.1% to ¥14.7 billion.

Qualitative Information about Changes in Consolidated Financial Position

At the end of the third quarter, total assets had increased ¥500 million over the end of fiscal 2004. The increase in assets resulting from higher net sales and seasonal factors was offset by the reduction of interest-bearing debt and other management efficiency measures. Shareholders' equity went up by ¥9.5 billion due to an increase in retained earnings resulting from the improved results, and this brought the shareholders' equity ratio to 31.0% at the end of the period.

Qualitative Information about Results Forecasts

Looking to the business environment ahead, conditions are expected to remain difficult because of factors such as continuing deflation and exchange rate fluctuations. Despite these conditions, the company's Consumer, Timepieces, and System Equipment categories are expected to remain firm in the fourth quarter as well. However, reflecting current orders for cellular phones in the Mobile Network Solutions (MNS) category and TFT LCDs and others in the Electronic Components category, Casio revised the forecasts for net sales down by ¥40 billion, for operating income down by ¥3 billion, and for ordinary income down by ¥2.5 billion from the consolidated full-year earnings forecasts for fiscal 2005 announced November 4, 2004. However, Casio revised the forecast for net income up ¥1 billion from the previous

forecast because of a capital increase in Casio Micronics Co., Ltd. Thus, for fiscal 2005, Casio is confident that net sales and net income will reach record levels, as shown in the Consolidated Results Forecast table on the bottom of the front page. Looking at the income margin, the company expects the operating income margin to reach its expected target of 7.0%, and the ordinary income margin and the net income margin to achieve the expected targets of 6.2% and 3.8% respectively. In the future, Casio will continue to respond swiftly to changes in the business environment, strongly promote reforms designed to emphasize the operating income margin, evaluate earnings and growth capacity in all businesses, and raise efficiency and effectiveness and create new value by developing strategies adapted to the characteristics of each of businesses.

Notes concerning results forecasts

- 1) The exchange rates are calculated at US\$1 = ¥103 and Euro1 = ¥130.
- 2) Results forecasts 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.

Overview of Sales by Product Category

In the Consumer category, Casio offered new Exilim products. Exilim has won strong support as a leading brand in the digital camera market for creating the genre of credit card-sized cameras, featuring large LCD monitors, and achieving long battery life. The new products introduced were the EX-S100, the world's smallest digital camera equipped with the world's first optical zoom ceramic lens, and the EX-Z55, which provides longer battery life while offering enhanced features such as a large, high-pixel screen. On the momentum of these new products, Casio continued to record steady sales in the digital camera market, and avoided most of the effects of the substantial price reductions seen in that market. As a result, net sales in the Consumer category for the first three quarters of fiscal 2005 overall rose 5.5% over the same period of fiscal 2004, to ¥145.6 billion.

In the Timepieces category, the market for solar-powered radio-controlled models steadily expanded. Casio shifted its emphasis away from standard models, resulting in a decline in net sales by 3.5% year-on-year to ¥50.9 billion. Conversely, the company expanded its lineup in the high-value-added genre such as all-metal, analog, and solar-powered radio-controlled watches, restructuring its product lineup to emphasize operating income margins. As a result, profits substantially improved across the category.

In the Mobile Network Solutions (MNS) category, the A5406CA cellular phone — the first cellular phone in the world with a built-in 3.2-megapixel camera — and the W21CA — the first in the industry to have a 2.6-inch wide QVGA LCD — achieved steady sales. In addition, the effect of establishing Casio Hitachi Mobile Communications Co., Ltd., which is a joint venture company with Hitachi, Ltd. set out to curtail lead times and costs associated with development of mobile handsets, helped boost overall net sales in the MNS category 68.4% year-on-year to ¥99.4 billion.

In the System Equipment category, Casio achieved robust sales with its integrated solutions business, which provides customers with the optimal combination of

hardware and applications. Sales in this category rose 4.2% year-on-year to ¥34.8 billion.

In the Electronic Components category, inventory adjustments in the digital home electronic appliances business impacted sales, which fell 5.7% year-on-year to ¥58.4 billion.

In the Others category, sales climbed 12.8% year-on-year to ¥26.0 billion.

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

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

(1) Improving earning capacity

Casio responds swiftly and effectively to changes in the business environment and develops businesses able to secure stable growth and profits by taking the following steps.

- (a) Marketing differentiated products by enhancing technological and product planning power
- (b) Building a sound cost structure by reducing the ratios of cost of sales and SG&A expenses to net sales

(2) Strengthening financial structure

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

- (a) Improving the debt/equity (D/E) ratio and shareholders' equity ratio by reducing interest-bearing debt and increasing shareholders' equity
- (b) Reducing front-loaded working capital, including prompt collection of notes and accounts receivables and inventory reductions
- (c) Effective and efficient capital expenditure

The company is endeavoring to enhance cash flow and strengthen its financial base through these strategies.

(3) Actively promoting corporate social responsibility (CSR) management

In order to continue to achieve its 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. Casio is implementing various efforts to enhance corporate governance.

- (a) Strengthening company-wide systems, centered on the CSR Operation Section
- (b) Improving corporate governance and compliance based on the Casio Common Commitment and Casio Code of Conduct prepared in accordance with the Charter of Creativity for Casio
- (c) In all aspects of corporate activities, firmly promoting an environmentally sensitive business approach that reflects the needs of the environment, the economy, and society

Casio believes that the strategies described above will enable the company to continue to deliver original, high-value-added products and services, enhance creativity in society everywhere, and increase corporate value.