

## **Management Policy**

### **Basic Management Policy**

Since Casio's foundation, its corporate creed has been "Creativity and Contribution." Casio's mission is to pursue growth as a company, increase corporate value, and remain attractive for all investors and customers by creating an affluent life for people around the world and contributing to society. The company is accomplishing this by introducing innovative ideas and astonishingly good solutions based on its proprietary advanced technologies.

Casio will continue to deliver the values of "function, quality, economy, speed, productivity, ethics, safety, and compatibility with the environment" in its products and services. In the months and years ahead, the company looks forward to providing all of its stakeholders with more "excitement" than they anticipate, and greater inspiration than ever before.

### **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. The company's dividend policy is based on maintaining stable dividends, improving the allocation of profit by taking factors such as profit levels, financial position and the dividend payout ratio 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.

Casio plans to increase the dividend by 2 yen per share from the 15 yen per share paid last fiscal year to 17 yen per share for the year under review, taking factors such as business performance into consideration. This increase in the dividend follows on an increase in the previous year.

### **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**

The Casio Group considers increasing its earning capacity and strengthening its financial structure to be pressing issues, and the entire company has been united in promoting the strategies described below since fiscal 2004.

## (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. In fiscal 2005, Stable Businesses accounted for 47% of net sales and Expansive Businesses accounted for 53% of net sales. The operating income margin was 10.6% in Stable Businesses and 5.7% in Expansive Businesses. As a result, the operating income margin for the company overall, allowing for eliminations or unallocated amounts, was 7.0%, which is a substantial improvement from the 4.1% of fiscal 2003. 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 a 10% operating income margin overall.

## (2) Strengthening Financial Structure

Casio is moving ahead strongly with improvements in its shareholders' equity ratio and debt/equity (D/E) ratio with the aim of strengthening the financial foundations for future growth.

In fiscal 2005, Casio realized major improvements: the consolidated equity ratio improved from 28.7% in fiscal 2003 to 32.7%, and the D/E ratio went from 1.34 in fiscal 2003 to 0.95. In the future, the company will continue to pursue even more thoroughly efficient cash flow management and strive to generate free cash flow, aiming for a complete turnaround to a strong and stable financial structure.

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 a director system and auditor system 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 (held 18 times during fiscal 2005). 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 consists of 3 auditors, including 2 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 described above. In addition, they conduct rigorous audits using interviews with and reports from directors and reviews of documentation related to decisions on important matters (11 times in fiscal 2005). They also work in cooperation with the internal audit division and independent accountants, requesting reports from them regularly and as required. External auditors do not have any special interests in Casio.

External audits by independent accountants are conducted by KPMG AZSA & Co., based on auditing standards generally accepted in Japan. The company also receives proposals that lead to improvements in its operations. The 2 certified public accountants who carry out the work are Yasuaki Takayama and Eiichi Kamiya, and Mr. Kamiya has been conducting audits of Casio for 11 years. In addition, their assistants in the auditing work consist of 4 certified public accountants as well as 7 others.

In fiscal 2005, Casio paid ¥225 million as remuneration to directors and ¥27 million to auditors (including ¥18 million to external auditors). Fees payable to the independent accountants by Casio were ¥38 million in consideration of the statement of audit based on the auditing agreement.

The internal audit division consists of 5 members, and they conduct 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, make evaluations and provide 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, sustainability report, 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

Casio understands that sustainable corporate growth will only come about with the sustainable development of the global community, and is actively managing its corporate social responsibility (CSR). For Casio, CSR is a key pillar of corporate management.

In an effort to bolster its activities in this area, the company established the CSR Operation Section in April 2004 to improve its company-wide organization. In December 2004, Casio also inaugurated the CSR Committee, which consists of directors and auditors with the President as Chairman. The CSR Committee determines the direction of

company-wide CSR activities, including basic policy and other important matters, and works to enhance the company-wide risk management system.

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 as well as social aspects of the company's activities. Casio plans to publish an even more detailed CSR Report covering the economic, social, and environmental aspects of the company's activities in June 2005.