

Management's Discussion and Analysis

Net Sales

Net sales rose 7.0% year on year on a consolidated basis in fiscal 2007, to ¥620,769 million. This was chiefly the result of strong performances by our strategic businesses – timepieces, digital cameras, electronic dictionaries, and cell phones, among others – thanks to aggressive marketing initiatives.

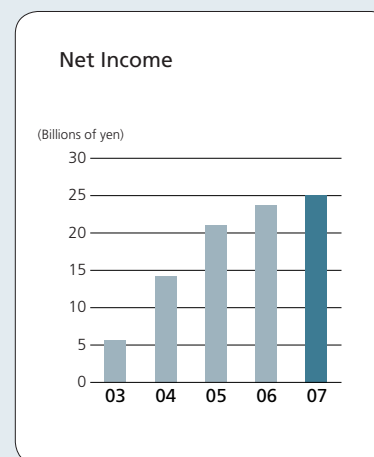
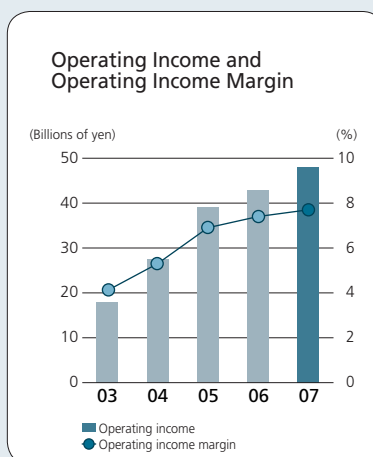
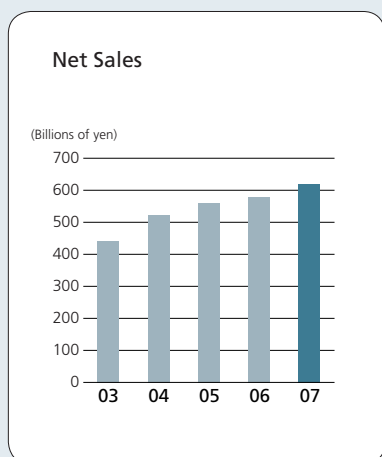
	Millions of yen	
	2007	2006
Electronics:		
Consumer.....	¥229,352	¥213,810
Timepieces	77,948	71,086
Mobile Network Solutions (MNS)	171,314	139,896
System Equipment	48,602	48,628
Subtotal.....	527,216	473,420
Electronic Components & Others:		
Electronic Components	62,790	73,976
Others	30,763	32,913
Subtotal.....	93,553	106,889
Total	¥620,769	¥580,309

Results by Segment

Sales in the electronics segment increased 11.4% to ¥527,216 million, accounting for 84.9% of net sales.

In the Consumer Category, sales increased 7.3% to ¥229,352 million. The digital camera business continued its strong performance from the previous term and registered positive results, thanks to the release of EX-Z1000, the world's first digital camera to achieve 10.1 megapixels in a compact body. Growing sales in overseas markets, achieved through proactive measures, also contributed to the strong results.

In the Timepieces Category, sales rose 9.7% to ¥77,948 million. This was mainly the result of aggressive marketing of solar-powered radio-controlled watches, led by the full-metal high-end Oceanus brand, in Japan, Europe and North America.



In the MNS (Mobile Network Solutions) Category, sales surged 22.5% to ¥171,314 million. This is due to strong performances by W51CA, a one-segment TV broadcast compatible phone, followed by W41CA widescreen cell phone.

In the System Equipment Category, sales declined 0.1% to ¥48,602 million. Sales were on par with the previous year's level thanks to steady sales of a compact high-speed color printer that uses A3-sized paper, and a super slim projector.

Sales in the Electronic Components and Others Segments Category fell 12.5% to ¥93,553 million, accounting for 15.1% of net sales. Specifically, sales in the Electronic Components Category fell 15.1% to ¥62,790 million. This was the result of a decrease in revenue from our TFT LCD business due to a decline in the unit price, as well as the impact of a fall in income for Casio Micronics Co., Ltd. Sales in the Others Category decreased 6.5% to ¥30,763 million.

Results by Region

Sales in Japan grew 0.3% to ¥345,790 million, comprising 55.7% of total sales. Sales in North America rose 42.6% to ¥83,951 million, accounting for 13.5% of total sales, while sales in Europe were up 15.3% at ¥90,902 million, accounting for 14.7% of total sales. Sales in Asia and other overseas regions increased 2.3% to ¥100,126 million, accounting for 16.1% of total sales. Consequently, overseas sales increased 16.7% to ¥274,979 million.

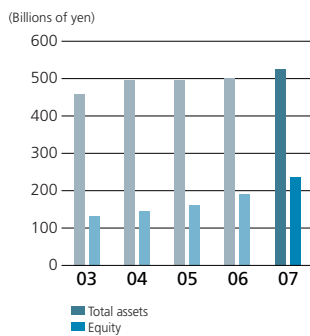
Results of Operations

For fiscal 2007, operating income came to ¥48,074 million, up 11.5% year on year. The Electronics Segment posted an operating income (prior to consolidation adjustments) of ¥53,891 million, up 29.1%, while the Electronic Components and Others Segment posted an operating loss of ¥785 million. This increase in operating income is the result of our strategy of raising value-added by strengthening the appeal of its digital cameras, cell phones, radio-controlled watches, and electronic dictionaries, as well as company-wide efforts to improve productivity by improving the efficiency of development and operational processes. The operating income margin rose 0.3 of a percentage point to 7.7%.

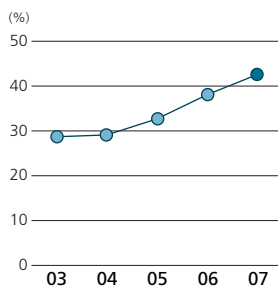
Net financial income amounted to ¥1,106 million, compared with ¥558 million in the previous reporting period. Net other expenses came to ¥7,797 million, up from ¥4,001 million in the previous term.

Net income grew 5.9% to ¥25,147 million, setting a record for the fourth straight term. Net income per share came to ¥92.67, up ¥4.1 from fiscal 2006.

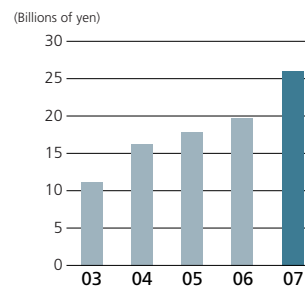
Total Assets and Equity*



Equity Ratio*



Capital Investment



* see page 31

Financial Condition

Total assets at the end of March 2007 increased 4.7% year-on-year to ¥525,483 million. Current assets rose by ¥10,957 million to ¥330,136 million due mainly to an increase in trade receivables. Noncurrent assets rose ¥12,566 million to ¥195,347 million mainly due to increases in buildings and structures and software. Total liabilities decreased 3.4% to ¥288,814 million, due mainly to the conversion of bonds with stock acquisition rights (convertible bonds). The debt-to-equity ratio was 0.37, compared with 0.63 for the previous year, marking a substantial improvement.

Net assets* amounted to ¥236,669 million. The equity ratio** increased 4.5 percentage points to 42.6%.

* Beginning with the fiscal year ended March 2007, the term "net assets" has been employed instead of "shareholders' equity" in line with the new accounting standards.

** The equity ratio is defined as net assets minus minority interests as a percentage of total assets.

Cash Flow Analysis

Cash and cash equivalents as of the reporting term-end amounted to ¥97,239 million, a decline of ¥27,993 million from the previous term-end. The principal factors in the decline are repayment of long-term debt and an increase in trade receivables as a result of the fact that the last day of the business term fell on a bank holiday.

Net cash provided by operating activities posted a decline of ¥7,926 million from the previous term to ¥35,949 million, mainly consisting of income before income taxes of ¥41,383 million (¥39,671 million for the previous term) and depreciation expenses of ¥31,613 million (¥26,629 million for the previous term), which more than offset an increase in trade receivables of ¥21,208 million (¥10,696 million for the previous term) and income taxes paid of ¥14,208 million (¥17,123 million for the previous term).

Net cash used in investing activities increased by ¥7,997 million from the previous term to ¥37,679 million, as a result of a net increase in outlay for the acquisition of tangible fixed assets of ¥16,865 million (¥19,935 million for the previous term), of intangible fixed assets of ¥17,942 million (¥11,815 million for the previous term), and of investments in securities of ¥9,039 million (¥3,353 million for the previous term).

Net cash used in financing activities decreased by ¥11,105 million from the previous term to ¥28,713 million, due mainly to a net increase in short-term borrowings of ¥4,285 million (a net decrease of ¥1,519 million for the previous term). Other main components were repayment of long-term debt of ¥20,747 million (¥9,688 million for the previous term) and expenditure for the acquisition of treasury stock of ¥6,557 million (¥47 million for the previous term).

Capital Investment

Capital investment amounted to ¥26,810 million, up 36.0% over the previous term. Broken down by business segment, capital investment came to ¥11,661 million in the Electronics Segment, up 10.1%, and ¥14,020 million in the Electronic Components and Others Segment, up 60.0%. The remaining capital investment, made by the Company as a whole, cannot be accounted for by business segment.

Research & Development

R&D expenses remained almost the same level as the previous term, at ¥18,019 million. By business segment, R&D expenses in the Electronics Segment increased 6.2% to ¥12,133 million, while a decrease of 33.4% to ¥1,668 million was recorded in the Electronic Components and Others Segment. The remaining R&D expenses were used throughout the Company and cannot be accounted for by business segment.