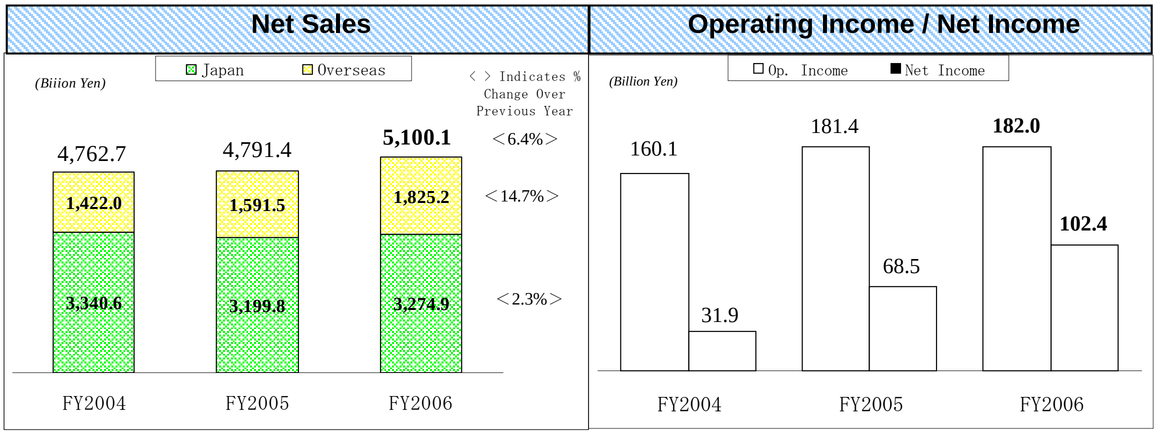
2. Profit and Loss

Note: In various places throughout these explanatory materials, yen figures for net sales, operating income and net income are converted to U.S. dollars, for convenience only, at a uniform rate of $1 = 118 yen, which was the approximate Tokyo foreign exchange market rate at March 31, 2007.



Consolidated net sales for fiscal 2006 were 5,100.1 billion yen (US$43,222 million), an increase of 6.4% over the previous fiscal year. All business segments posted higher sales. Overseas sales increased by 14.7% over the previous year. Although second-half sales of standard technology logic devices in Asia were sluggish, higher sales of IT services in North America and the UK, boosted by aggressive acquisitions, as well as HDDs and UNIX servers led to the double-digit increase in overseas sales. Sales in Japan increased by 2.3% over the previous year, the first year-on-year increase in domestic sales since fiscal 2003. Although sales of mobile phone base stations declined from the previous year, when there was strong demand, sales in our services business were strong, particularly in the financial services and manufacturing sectors, and sales of electronic components also increased.

Consolidated operating income was 182.0 billion yen (US$1,543 million), an increase of 0.6 billion yen over the previous fiscal year. As a result of higher sales in our services business, gross profit increased by 50.5 billion yen, but due to intensified global price competition in our product businesses, including HDDs, UNIX servers, optical transmission systems, and PCs, the gross profit margin narrowed by 0.6 percentage points, to 25.9%. Selling, general and administrative expenses increased by 49.9 billion yen. In addition to an expansion in the scale of our overseas services businesses due to aggressive acquisitions in North America and new large-scale business deals in the UK, in Japan we continued to actively invest in advanced technology logic and make upfront, strategic investments in the hardware as well as the software and services fields, particularly in Technology Solutions.

Other income (expenses) was positively impacted by a number of factors. As a result of revisions to our pension system in September 2005 and higher stock prices at the end of fiscal 2005, amortization of unrecognized obligation for retirement benefits in fiscal 2006 was only 3.1 billion yen, a dramatic reduction from the previous year's level of 28.2 billion yen. In addition, with the sale in the third quarter of a portion of our shareholdings in Spansion Inc., results from Spansion, which had recorded a loss in the previous year, are no longer accounted for under the equity method. As a result, there was an improvement of 8.4 billion yen in net equity in earnings of affiliated companies.

As a result of the sale of a portion of our shareholdings in Fanuc Ltd. in accordance with that company's share buyback, as well as the sale of a portion of our shareholdings in our consolidated subsidiary NIFTY Corporation in accordance with that company's initial public offering and the allocation of new shares to third parties, we posted a gain on the sale of marketable securities of 77.3 billion yen and a gain on change in interest of 2.1 billion yen.

We posted a valuation loss of 9.9 billion yen primarily on plant and equipment assets in our optical transmission business and a 2.2 billion loss on sales of marketable securities from the sale of a portion of our shareholdings in Spansion Inc., which was publicly listed in December 2005.

As a result of the above factors, we reported fiscal 2006 consolidated net income of 102.4 billion yen (US$868 million), an increase of 33.8 billion yen over fiscal 2005 and surpassing by over 20 billion yen our initial projection of 80.0 billion yen. In addition to the improvement in other income (expenses), gains on the sales of shareholdings and other gains contributed to this record level of net income, which surpassed the previous record of 89.0 billion yen posted in fiscal 1984.