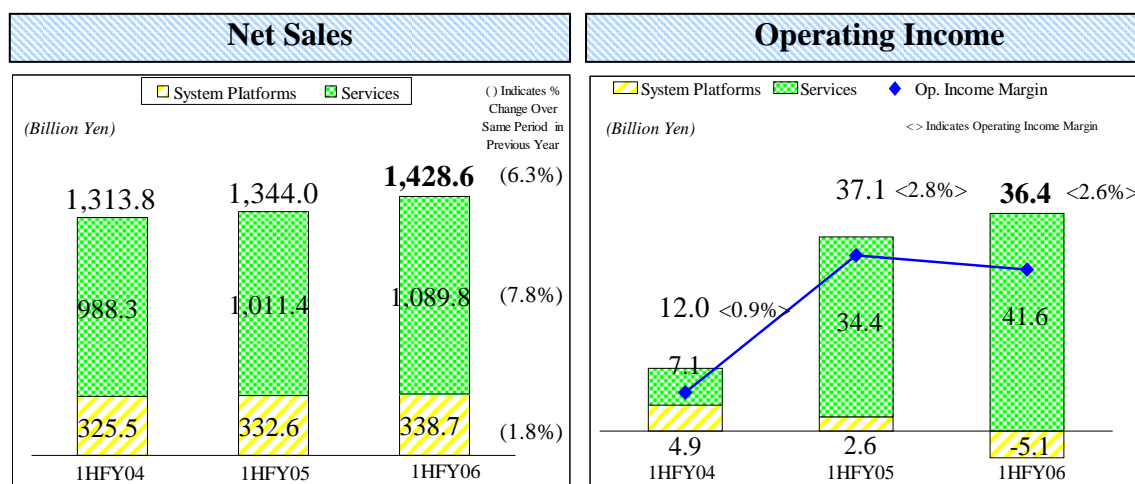


2. Results by Business Segment

Information on net sales (including intersegment sales) and operating income for the first half broken out by business segment is presented below. In accordance with the change in the method of allocating operating expenses initiated in this fiscal year, to facilitate comparisons with earlier periods, results for previous years have been restated on a comparable basis. (For further details, refer to page 22.)

Technology Solutions



Total first-half consolidated net sales in this segment were 1,428.6 billion yen (US\$12,107 million), up 6.3% over the first half of fiscal 2005. In Japan, although mobile phone base station sales decreased, sales in our solutions/systems integration business increased, and overall sales in Japan for the segment were on par with the first half of fiscal 2005. Overseas sales, however, posted a substantial increase of 23.3% compared to the same period in the previous year as a result of strong sales in outsourcing and other services businesses and higher sales of optical transmission systems and UNIX servers.

Operating income for the segment was 36.4 billion yen (US\$309 million), roughly the same level as for the first half of fiscal 2005. Higher operating profits in outsourcing and other services businesses, particularly overseas, were offset by the effect of lower year-on-year revenue for mobile phone base stations.

(1) System Platforms

Net sales in the System Platforms sub-segment were 338.7 billion yen (US\$2,871 million), up 1.8% from the first half of fiscal 2005. In Japan, sales of mobile phone base stations decreased in comparison with the first half of fiscal 2005, when demand was especially high. Overseas sales for the sub-segment increased by 14.5% compared to the same period in the previous fiscal year, boosted by continued strong sales of optical transmission systems and a significant increase in sales of UNIX servers.

	First Half FY 2006 (Billion Yen)	% Change from 1H FY 2005
Net Sales	338.7	1.8%
Japan	237.5	-2.8%
Overseas	101.1	14.5%

System Platforms posted an operating loss for the first half of 5.1 billion yen (US\$44 million), representing a deterioration of 7.8 billion yen in comparison to the first half of fiscal 2005. We continued manufacturing innovation efforts and made further progress in generating cost efficiencies. However, due to lower sales of mobile phone base stations compared to the first half of fiscal 2005, when demand was especially high, as well as intensified price competition worldwide and higher expenses associated with continued upfront strategic investments, our

server-related products business leveled off and, despite higher sales, profits declined for optical transmission systems.

We have established a worldwide network of system verification centers, where we provide customers with comprehensive pre-verification and evaluation services for platform products and system construction support in open-standard system environments. Adding to existing centers in Japan, Europe, the US, Singapore, and Korea, in this fiscal year we have established new Platform Solution Centers in Shanghai and Hong Kong in order to promote sales of platform products in China, where the IT market continues to expand rapidly.

(2) Services

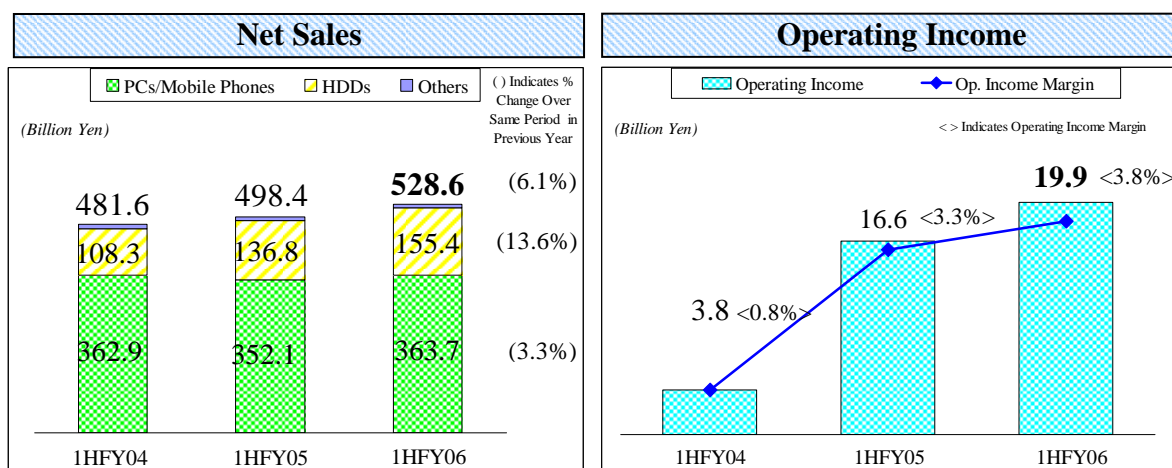
Net sales in the Services sub-segment were 1,089.8 billion yen (US\$9,236 million), up 7.8% from the same period a year earlier. Sales in Japan were roughly at the same level as in the first half of last year. However, excluding the impact of the shift to the percentage of completion method implemented in the first half of fiscal 2005, which involved the aggregate recording at that time of sales from project work performed in previous years, sales in Japan increased by 2.5%. In our solutions/systems integration business, there were signs of a clear recovery centered on the financial services, manufacturing, and retail sectors. Overseas, Services sales remained strong in the UK, as well as in North America, where our business expanded as a result of acquisitions. Overseas sales for this sub-segment registered a 25.8% increase over the first half of fiscal 2005.

	First Half FY 2006 (Billion Yen)	% Change from 1H FY 2005
Net Sales	1,089.8	7.8%
Japan	705.3	-0.1%
Overseas	384.5	25.8%

Operating income was 41.6 billion yen (US\$353 million), an improvement of 7.1 billion yen over the same period last year. The higher operating income was primarily attributable to the continued strength of our outsourcing services business in the UK and the expansion of our services business in North America as a result of acquisitions and other factors. In our solutions/systems integration business in Japan, expenses increased as a result of strategic investment in business proposal activities and other measures to expand our business, but we were able to maintain profitability as a result of higher sales and improved earnings.

We signed an agreement with SAP AG of Germany to become a SAP Global Services Partner, becoming the first Japan-based company with that designation. The agreement extends our longstanding partnership in the platforms area to include collaboration in the area of services. Going forward, through joint marketing activities worldwide with SAP, we will leverage our strength in industry know-how and service capability with SAP's strength in enterprise applications to help customers optimize their overall operations and boost their competitiveness.

Ubiquitous Product Solutions



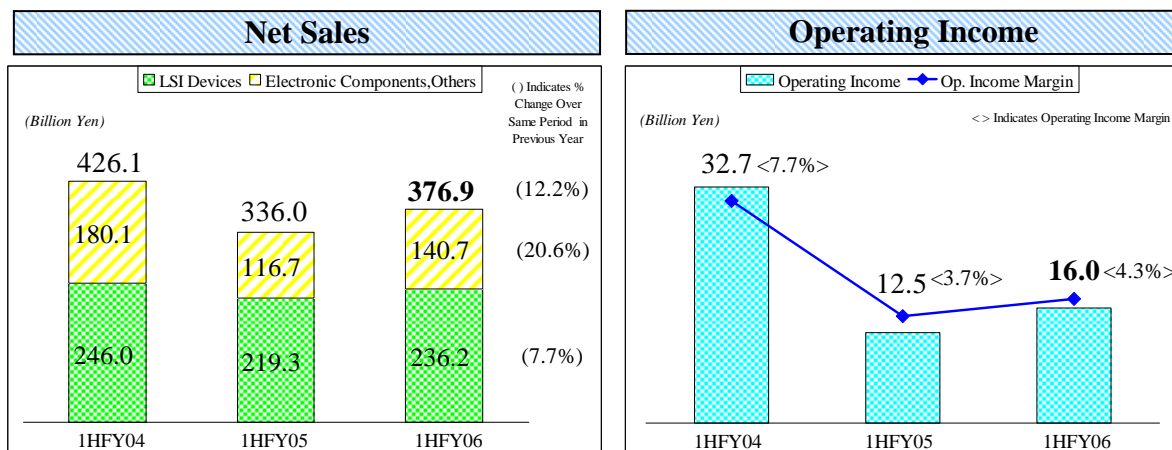
Net sales in the Ubiquitous Product Solutions segment were 528.6 billion yen (US\$4,480 million), an increase of 6.1% over the same period last year. In Japan, sales increased by 1.9%. PC sales were sluggish as a result of weak consumer demand, but sales of mobile phones were firm. Overseas sales in the segment increased by 14.2%, driven by significantly higher sales of PCs and HDDs.

	First Half FY 2006 (Billion Yen)	% Change from 1H FY 2005
Net Sales	528.6	6.1 %
Japan	335.0	1.9 %
Overseas	193.5	14.2 %

Operating income for Ubiquitous Product Solutions was 19.9 billion yen (US\$169 million), an improvement of 3.3 billion yen over the comparable period last year. Our PC and HDD businesses were strongly impacted by severe price competition both in Japan and overseas markets. However, thanks to increased sales of HDDs and mobile phones, as well as improved quality and cost efficiencies generated by our manufacturing innovation initiatives, overall income for the segment increased.

We commenced sales of new 2.5-inch HDDs with perpendicular magnetic recording technology. Looking ahead, we expect growth in the market for large-capacity HDDs for use in AV-compatible PCs, consumer electronics and other products, and we are working to steadily expand our lineup of high-quality products incorporating the newest technology.

Device Solutions



Net Sales of Device Solutions were 376.9 billion yen (US\$ 3,195 million), an increase of 12.2% compared to the first half of fiscal 2005. Steady demand for logic LSI devices, primarily for automotive and digital appliance applications, and the effect of full-scale volume shipment from the Mie Plant's 300mm-wafer line since last September contributed to double-digit increases in sales both in Japan and overseas.

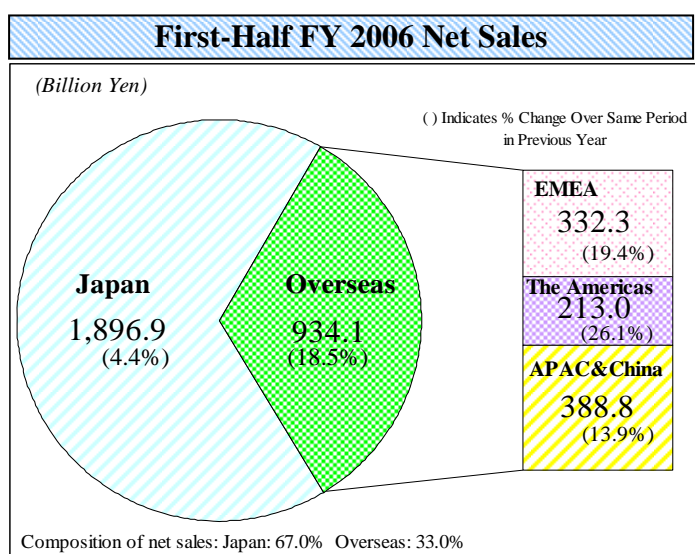
	First Half FY 2006 (Billion Yen)	% Change from 1H FY 2005
Net Sales	376.9	12.2 %
Japan	215.6	13.0 %
Overseas	161.3	11.0 %

Operating income for Device Solutions was 16.0 billion yen (US\$ 136 million), an increase of 3.5 billion yen over the same period last year. The positive impact of higher logic LSI device revenue was offset by the weight of increased development costs, resulting in income roughly on par with the first half of fiscal 2005 for the LSI Devices sub-segment. Other electronic components continued to perform favorably.

We have recently finalized a contract to purchase semiconductor fabrication facilities in Japan from Spansion Japan. These facilities will enable us to expand the production of standard technology logic LSI devices with a focus on flash memory-embedded microcontrollers for automotive systems and consumer electronics, which are expected to experience further market growth. In line with our strategy of focusing our resources on logic LSI devices, we will strive to strike a balance in strengthening both our standard technology logic LSI devices business and our advanced technology logic devices business, the latter centering on devices produced at the Mie Plant's 300mm-wafer fab.

Results by Geographic Segment

In order to strengthen our overseas business, we have designated senior executives as heads of regional operations in each of the following four areas: the Americas, EMEA (Europe, Middle East and Africa), China, and Asia-Pacific. Along with this change, we have renamed the Europe and Asia, Australasia & Others geographic segments as EMEA and APAC & China, respectively.



Operating Income

(Billion Yen)

	1H FY 2006	1H FY 2005	Change
Japan	55.3	48.5	6.8
Overseas	21.6	18.2	3.4
EMEA	9.2	6.3	2.9
The Americas	5.3	5.1	0.1
APAC & China	7.0	6.6	0.3

First-half fiscal 2006 net sales and operating income registered year-on-year increases in each geographic segment.

In Japan, net sales were 1,896.9 billion yen (US\$16,076 million), an increase of 4.4% over the first half of fiscal 2005, due in part to strong sales of mobile phones and electronic components. Operating income was 55.3 billion yen (US\$469 million), an increase of 6.8 billion yen over the same period last year.

Overseas, EMEA and the Americas recorded strong, double-digit sales growth. Combined operating income for the three overseas segments was 21.6 billion yen (US\$184 million), up 3.4 billion yen over the first half of fiscal 2005.

Net sales for EMEA were 332.3 billion yen (US\$2,816 million), an increase of 19.4% over the same period last year, bolstered by continued favorable performance of outsourcing services in the UK. Operating income was 9.2 billion yen (US\$79 million), a 2.9 billion yen increase over the first half of 2005.

In the Americas, the expansion of our North American services business through acquisitions and the strong performance of our optical transmission systems and UNIX server businesses contributed to net sales of 213.0 billion yen (US\$1,805 million), a 26.1% increase over the same period last year. Due in part to intensified price competition and an increase in development costs for optical transmission systems, operating income was 5.3 billion yen (US\$45 million), roughly on par with last year.

In APAC & China, favorable performance in HDDs and logic LSI devices contributed to net sales of 388.8 billion yen (US\$ 3,295 million), a 13.9% increase over the same period last year. Operating income was 7.0 billion yen (US\$60 million), roughly even with the first half of fiscal 2005.

Change in Method of Allocating Operating Expenses

We are reforming our business performance management system to better reflect the positioning of our various business units as independent operating entities under the consolidated framework and to delineate the responsibility of each to earn a return on investment. Accordingly, we have changed the method by which we allocate operating expenses for each business unit in our consolidated accounts to more clearly reflect the actual business situation. Previously, certain expenses for business unit support were accounted for as unallocated administrative expenses under “elimination & corporate.” Beginning this fiscal year, expenses for each business unit that would be incurred if it were operated independently will be assessed to each respective business segment. Group-wide strategic expenses, such as basic research, which should provide a return to the entire Group, will continue to be accounted for under “elimination & corporate.” In addition, the method for allocating expenses in each business unit attributable to the sales activities of sales and system engineering units has been changed to reflect the actual consolidated business situation.

The impact of these changes on the operating income of each business segments is as follows:

	First Half (Actual)			(Billion Yen) Full Year (Projected)		
	Before Change	Impact of Change	After Change	Before Change	Impact of Change	After Change
Technology Solutions	41.3	-4.8	36.4	185.0	-10.0	175.0
Ubiquitous Product Solutions	20.5	-0.5	19.9	30.0	-	30.0
Device Solutions	17.8	-1.8	16.0	35.0	-5.0	30.0
Other Operations	4.8	-	4.9	10.0	-	10.0
Elimination & Corporate	-33.8	7.1	-26.7	-70.0	15.0	-55.0
Total	50.6	-	50.6	190.0	-	190.0

In reporting operating income for the first half of fiscal 2006 broken out by geographic segment, in comparison to the previous allocation method, these changes have reduced operating income for Japan by 7.1 billion yen, and this amount has been added to “elimination & corporate.” There is no impact on any other geographic segment.