

6. Second-Quarter Financial Results

Profit and Loss

	Second Quarter FY 2006 (Billion Yen)	% Change from 2Q FY 2005
Net Sales	1,259.4	8.0%
Japan	814.4	3.4%
Overseas	445.0	17.7%

(Billion Yen)

	Second Quarter FY 2006	Change from 2Q FY 2005
Operating Income	36.0	3.3

Second-quarter consolidated net sales were 1,259.4 billion yen (US\$10,673 million), a year-on-year increase of 8%. This represents the largest year-on-year rate of increase in net sales since reporting of quarterly results was introduced in fiscal 2001. Thanks to the favorable performance of our outsourcing and other services-related businesses, as well as growth in sales of HDDs, optical transmission systems and UNIX servers, overseas sales increased by 17.7%. In Japan, sales of solutions/systems integration services increased, particularly in the financial services sector as well as in the manufacturing and retail sectors, and sales of LSI devices as well as electronic components and mobile phones also expanded.

Consolidated operating income in the second quarter was 36.0 billion yen (US\$306 million), an increase of 3.3 billion yen over the corresponding quarter of fiscal 2005. Intense price competition continued to affect our optical transmission systems, server-related and other businesses, which we have been expanding in global markets. Positive factors, however, such as the continued strong performance of our outsourcing and other services businesses, particularly overseas, the effects of higher sales of solutions/systems integration services, HDDs, mobile phones and other products, and our success in reducing costs, enabled us to record an overall increase in operating income compared to the second quarter of fiscal 2005.

In other income (expenses), there was a reduction in the amortization of unrecognized obligation for retirement benefits of 0.7 billion yen, representing a significant decrease from the amount of 8.2 billion yen reported in the second quarter of fiscal 2005. This was due to the pension system revisions that took place in September 2005, as well as the effect of the rise in stock market prices at the end of fiscal 2005. In addition, there was an improvement in investment losses under net equity in earnings of affiliated companies.

Net income for the second quarter was 14.1 billion yen (US\$120 million), an increase of 9.0 billion yen over the corresponding period in the previous fiscal year.

