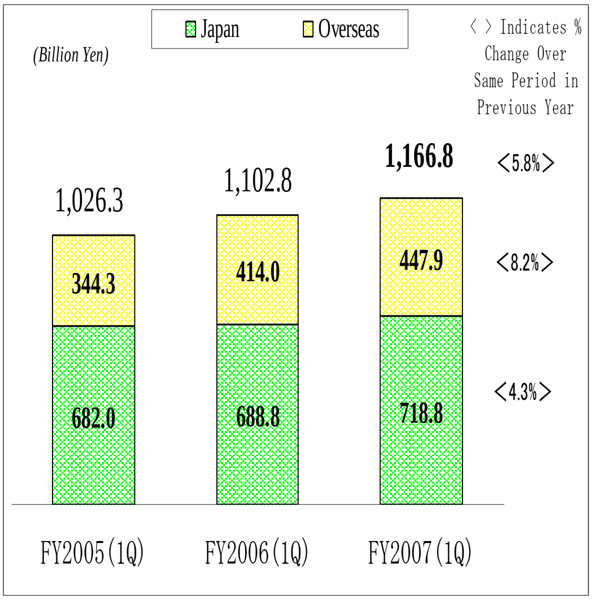
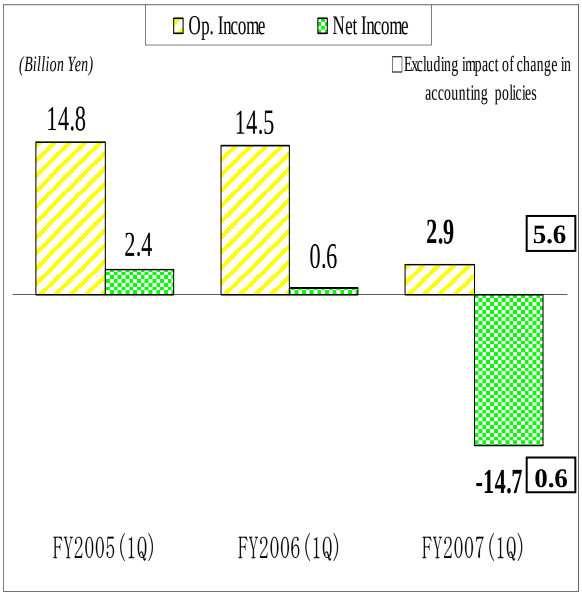
2. Profit and Loss

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 = 123 yen, which was the approximate Tokyo foreign exchange market rate at June 30, 2007.

Net Sales



Operating Income & Net Income



First-quarter consolidated net sales were 1,166.8 billion yen (US$9,486 million), a year-on-year increase of 5.8%. Sales increased in each of our business segments by at least 5%, with exceptionally strong performance in the Services sub-segment of our Technology Solutions segment.

Sales in Japan increased by 4.3%. Although the customer investment cycle in mobile phone base stations peaked out and sales of standard technology logic LSI products were sluggish as a result of a delayed rebound in demand, sales in our services business increased as a result of higher sales of systems integration services, primarily in the financial services and public sectors, and continued strength in our outsourcing business. Moreover, in addition to higher sales of mobile phones and advanced technology logic products, domestic sales of servers and related products were also solid.

Overseas sales increased by 8.2%. Despite sluggish sales of hard disk drives (HDDs), which were impacted by continuing price competition in global markets, and lower sales of Flash memory chips for mobile phones, overseas sales of outsourcing and other services remained strong, and sales of UNIX servers and notebook PCs also increased.

Consolidated operating income was 2.9 billion yen (US$24 million). Excluding the impact of changes in accounting policies that were implemented this fiscal year, operating income was 5.6 billion yen, a year-on-year first-quarter decline of 8.8 billion yen. Operating income was adversely affected by lower capacity utilization as a result of sluggish sales of standard technology logic products, making it impossible to absorb higher expenses in our advanced technology logic device business. As a result, despite higher overall sales, primarily in overseas markets, our gross income margin declined by 1.3 percentage points, to 24.8%. Selling, general, and administrative expenses increased by 13.5 billion yen over the same period in fiscal 2006 as a result of the growth in the scale of our services business in the UK, Germany, and other European markets as well as higher development expenditures in the areas of next-generation networks and advanced technology logic devices.

In other income (expenses), because as of the third quarter of last fiscal year results from Spansion Inc. are no longer consolidated under the equity method, there was an improvement in equity in earnings of affiliates. As a result of the depreciation of the yen, there was significant improvement in foreign currency translation adjustments.

In addition, we posted a gain of 9.8 billion yen from the sale of shares in affiliates and a loss of 25.0 billion yen on revaluation of inventories. The latter was a valuation loss on inventories at the beginning of the quarter in conjunction with the early adoption of a new accounting policy for the valuation of inventories introduced from this fiscal year.

As a result of these factors, we reported a consolidated net loss of 14.7 billion yen (US$120 million) for the first quarter. Excluding the impact of change in accounting policies, there was a net profit of 0.6 billion yen.

Comparison with April 2007 Forecasts

Because of higher-than-anticipated sales in the Technology Solutions and Ubiquitous Product Solutions segments, net sales exceeded the forecast announced on April 26, 2007 by 16.8 billion yen.

Excluding the impact of change in accounting policies, operating income exceeded the forecast by 5.6 billion yen. Results for logic LSI devices, for which there has been a delay in the rebound of demand, were lower than anticipated, but higher revenues together with improved costs efficiencies in our services, PC, mobile phone and other businesses, resulted in operating income that exceeded our initial forecast.