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YUHO REPORT

Annual

Fiscal Year Ended	**March 31, 2006**
Traded	**TSE1**
Stock Code	**9430**

NEC Mobiling, Ltd.

YUHOREPORT

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Company Profile

Financial highlights

Years ended March 31; Thousands of yen	**2002**	**2003**	**2004**	**2005**	**2006**	**Change 2006/2002**
Net sales	129,251,854	126,271,324	149,939,949	140,195,117	127,589,653	99%
Ordinary income	5,062,771	5,857,615	5,944,108	3,854,991	4,078,280	81%
Net income	2,649,027	3,428,774	3,295,368	2,105,075	2,117,133	80%
Equity in earnings of affiliated companies	–	–	–	–	–	
Common stock	2,370,780	2,370,780	2,370,780	2,370,780	2,370,780	100%
Shares issued	14,529,400	14,529,400	14,529,400	14,529,400	14,529,400	100%
Shareholders' equity	15,368,211	18,357,171	21,071,693	22,557,846	23,994,252	156%
Total assets	40,282,688	47,396,215	52,685,054	50,714,715	56,464,736	140%
Shareholders' equity per share (Yen)	1,057.73	1,263.45	1,450.28	1,552.57	1,651.43	
Dividends per share (Yen)	20.00	35.00	35.00	45.00	45.00	
Net income per share (Yen)	209.33	235.98	226.81	144.88	145.71	
Net income per share, fully diluted (Yen)	-	-	-	-	-	
Dividend payout ratio (%)	10.97	14.83	15.43	31.06	30.88	
Net cash provided by operating activities	3,759,071	4,156,075	3,992,152	2,550,132	4,324,104	
Net cash used in investing activities	(1,302,278)	(574,691)	(2,323,543)	(1,028,870)	(1,941,274)	
Net cash provided by (used in) financing activities	3,142,704	(432,038)	(579,133)	(613,496)	(658,908)	
Cash and cash equivalents at end of year	6,988,047	10,139,172	11,218,266	12,131,137	13,879,779	
Employees	1,323	1,290	1,500	1,494	1,169	88%

On July 24, 2001, the Company split each of its 500-yen par value shares into 20 shares with a 50-yen par value. For purposes of calculating net income per share for fiscal year 2002, the Company assumed that the split occurred at the beginning of the term.

Common size statements

Years ended March 31; Percent	2005	2006
Balance sheets		
Assets	100.0	100.0
Current assets	87.3	86.6
Property and equipment	2.4	2.2
Intangible assets	3.1	2.3
Investments and other assets	7.2	8.9
Total fixed assets	12.7	13.4
Liabilities and shareholders' equity	100.0	100.0
Current liabilities	48.9	50.8
Long-term liabilities	6.6	6.7
Total liabilities	55.5	57.5
Common stock	4.7	4.2
Additional paid-in capital	5.3	4.8
Retained earnings	34.5	33.5
Unrealized gains (losses) on marketable securities	0.0	(0.0)
Total shareholders' equity	44.5	42.5
Statements of income		
Net sales	100.0	100.0
Cost of sales	91.1	89.5
Gross profit	8.9	10.5
Selling, general and administrative expenses	6.1	7.2
Operating income	2.8	3.3
Non-operating income	0.0	0.1
Non-operating expenses	0.1	0.2
Ordinary income	2.7	3.2
Extraordinary gains	0.0	-
Extraordinary losses	0.1	0.1
Income before income taxes	2.6	3.1
Taxes	1.1	1.4
Net income	1.5	1.7

Business Overview

Description of business

The corporate Group is composed of the Company and NEC Corporation (NEC), its parent company. Organically integrating its capabilities in technological development, technical support and sales, the Company engages in a wide range of businesses related to mobile communications. The Company's businesses could be divided into three major areas of operations in fiscal year ended March 31, 2006: Mobile Software, which involves developing software for mobile communications terminals, such as mobile phones, and for mobile communications base station systems; Mobile Integration & Support, which involves developing, manufacturing and selling mobile communication systems, building base stations, providing on-site adjustment services, and providing repair and maintenance services for mobile phones and base stations; and Mobile Sales, which involves selling mobile phones and providing mobile solutions based on mobile communications technology.

Note: Mobile Software was transferred to NEC Communications Systems, Ltd. on April 1, 2006.

Mobile Software

The Company develops embedded software for mobile communications terminals as well as software for mobile communications base station systems. The activities involved include system design, manufacturing, evaluation and maintenance services.

Mobile Integration & Support

In this business, the Company provides systems integration (system design, selection of mobile base station sites, testing of radio wave propagation, installation of systems, on-site testing, systems optimization, and operation, repair and maintenance of systems, etc.) for mobile phone base station systems owned by mobile communications service providers.

The Company also provides services for operators of private mobile wireless systems. These include radio systems run by national government ministries and agencies, emergency radio communications systems for use by local governments, train radio systems for use by railway companies. In most cases, the businesses are provided under subcontract from NEC and include development, design and manufacturing of equipment as well as installation, on-site adjustment and maintenance.

The Company also provides maintenance services, including troubleshooting, repairs and sales of parts for mobile communications terminals, either under subcontracting arrangements with NEC or its subsidiaries or under direct agreements with mobile communications service providers. To provide nationwide maintenance services, the Company has established service centers in Sapporo, Sendai, Yokohama, Nagoya, Osaka, Hiroshima and Fukuoka and has assigned service personnel to two of its branches, one in Kanazawa (Hokuriku Branch) and another in Takamatsu (Shikoku Branch).

Mobile Sales

In its role as a primary dealer for mobile communications service providers such as NTT DoCoMo, Inc., the Company is engaged in selling subscriptions for mobile phone and other mobile communication services, selling mobile communications terminals and providing subscriber-related support services such as repairs and user fee collection. To achieve its objectives, the Company operates both its own stores and cooperation stores, primarily DoCoMo shops, throughout the country as well as developing distribution channels.

To respond to a wide range of needs related to mobile communications, the Company also develops and provides new mobile solutions, including operating instructions and sales information, and Internet-based services designed to enhance customer satisfaction.

Group companies

Name	Operations	Common stock Millions of yen	Percent ownership
(Parent)			
NEC Corporation	IT/Network Solutions business including manufacture and sales of computers, communications equipment and software as well as provision of services related to such products	337,821	51.00

History

Year	Month	Event
1972	December	The Company is established as Nippon Electric Mobile Radio Systems Service Co., Ltd. in Minato-ku, Tokyo. Capitalized at 20 million yen, it initiates operations involving sales, repair and maintenance services and other businesses related to mobile communications equipment and systems. The Company begins providing repair and maintenance services for pagers in Tokyo and Osaka.
1973	May	Establishes Engineering Department, through which it provides systems engineering and maintenance services for mobile communications base stations, including on-site installation and tuning of base station systems.
	June	Enters into authorized dealership agreement with NEC Corp. and begins selling mobile and other communications equipment and systems.
1979	December	Begins maintenance services for car phones in the Tokyo area.
1981	June	Establishes Systems Center, where it begins to develop software for mobile communications equipment and systems.
1982	March	Obtains general license from the Ministry of Construction to engage in installation of communications-related systems.
1987	May	Moves head office to Kohoku-ku, Yokohama, Kanagawa Prefecture.
1988	August	Receives order to tune base station systems from Nippon Idou Tsushin Corporation (current KDDI Corporation), which marks the start of its systems integration services Type I telecommunications enterprises.
1989	July	Establishes Maintenance Center and begins year-round 24-hour maintenance services.
1990	April	Changes its name to NEC Mobile Communications Ltd.; increases capital to 50 million yen.
	September	Begins production of private mobile radio systems, including emergency radio and railway communications systems.
	October	Increases capital to 100 million yen.
1992	April	Enters into distributorship agreement with the current NTT DoCoMo, Inc. to sell mobile phones and other related items as well as to handle subscriptions.
	November	Opens Nishi-Ikebukuro store in Toshima-ku, Tokyo, and begins retailing mobile phones and related items.
1994	March	Establishes retailing network for mobile phones and other products in nine regions spanning the country.
	October	Obtains ISO9001 certification, attesting to its achievement of international quality control standards.
1997	June	Increases capital to 400 million yen.
1998	March	Obtains license to operate as a recognized certification company for Type II Examination Service for radio equipment.
1999	June	Obtains license to operate as a recognized certification company for the Examination Service of Specified Radio Equipment.
2000	January	Obtains ISO14001 certification, attesting to its achievement of international environmental management standards.
2001	February	Increases capital to 600 million yen.
	March	Increases capital to 935.28 million yen.
	May	Expands NTT DoCoMo mobile phone business in the Kanto Koshinetsu region, based on an agreement to assume sales operations from NEC Personal Systems, Ltd. (current NEC Personal Products, Ltd.).
	July	Changes its name to NEC Mobiling, Ltd.

Year	Month	Event
2002	February	Lists shares on the Second Section of the Tokyo Stock Exchange and increases capital to 2,370.78 million yen.
	March	Obtains ISO9001 certification (year-2000 version), attesting to its achievement of international quality control standards.
2003	March	Lists shares on the First Section of the Tokyo Stock Exchange.
	June	Takes over mobile phone sales business from NEC CustomMax, Ltd. (current NEC Personal Products, Ltd.).
2004	April	Establishes Shanghai Mobiling, Ltd. in China.
2005	February	Obtains Privacy Mark certification, the Japanese Industrial Standard for management systems of personal information protection.
2006	March	Agrees to transfer of Mobile Software Development business to NEC Communications Systems, Ltd.

Risk factors

The following is a summary of potential risks to the Company's operations. They include items—not limited to those directly related to operating risks—that the Company believes could influence investors' judgments.

The following includes forward-looking statements which reflect the opinions of the Company as of the day of filing of the Japanese original of this report with the Financial Services Agency.

Risks have been divided into the following categories:

Relationship with NEC

Business-related risks

Relationship with NTT DoCoMo

Other risks

Relationship with NEC

(1) The Company is part of the NEC Group (NEC owns 51.00% of the Company's shares).

- The bulk of orders received by the Mobile Software and Mobile Integration & Support businesses come from NEC.
- Consequently, 24.6% of total sales in the year to March 2005 and 24.3% of total sales in the year to March 2006 were to NEC.

  (Since Mobile Software business was transferred to NEC Communications Systems, Ltd., a ratio of sales to NEC is expected to decrease for the year to March 2007.)

- The Company is licensed to use the "NEC" trademark. Consequently, if it loses the right to use this trademark, or if the NEC brand loses credibility or prestige, this could have an impact on the Company's financial performance.

(2) Other aspects of the relationship with NEC

- Of the Company's nine Directors and Corporate Auditors, three were concurrently employees of NEC as of March 31, 2006.
- Of the Company's 1,169 employees as of March 31, 2006, 84 were seconded from NEC.
- Employees on assignment from NEC were, in every sense of the word, working full-time in the Company's operations; with the growing competence and expertise of the Company's own personnel, the need to bring in people from NEC is lessening.
- The declining acceptance of employees from NEC will not pose an obstacle to the smooth functioning of the Company's operations.

Business-related risks

(1) Mobile Integration & Support

- This business accounted for 19.0% and 19.4% of the Company's sales in the years to March 2005 and March 2006, respectively.
- The Company provides systems integration for base stations deployed by mobile communications service providers. It also develops, designs and manufactures private mobile radio systems for municipalities, railway companies and other entities, and provides maintenance services for these entities. Hence, capital investment trends among mobile communications service providers or public works spending by municipalities could have an impact on the Company's financial performance.
- Because of insufficient investment in their own communications systems, some local governments and municipalities are indicating that they may switch to public communications systems to take advantage of the high-quality services and low prices offered by such systems. If such a trend materializes, it could have an impact on the Company's financial performance.

(2) Mobile Sales

- This business accounted for 71.5% and 73.0% of the Company's sales in the years to March 2005 and March 2006, respectively.
- In an environment featuring intense competition and rapid introductions of new models, the Mobile Sales business is characterized by short life cycles and falling sales prices for mobile phones.
- The ability of dealers to count on commissions and incentives from mobile communications service providers in exchange for signing up subscribers enables them to sell mobile phones at below procurement cost.
- Thus, any major change in the provisions of service and payment contracts entered into with mobile communications service providers, which include amounts, payment periods, services to be performed and subscriber's amount of call change in exchange for payment of commissions and incentives, could have a significant impact on the Company's financial performance.
- Commissions and incentives received by the Company over the past two years are shown in the following table.

Millions of yen Item	Recognized for accounting purposes as:	2005 Amount	2005 Percent	2006 Amount	2006 Percent
Commissions received	Net sales	35,693	37.4%	30,558	31.7%
Incentives received	Cost of sales (deduction)	59,828	62.6%	65,978	68.3%
Total		95,521	100.0%	96,536	100.0%

(Note) Commissions (comprising "handling commissions" and "stock commissions") are recognized as sales; incentives are recognized as deductions from the cost of sales.

Definitions:

- *Handling commissions: paid for services rendered on behalf of mobile communications service providers (writing new subscriber contracts, changing subscriber phones to different models, repairs, etc.)*
- *Stock commissions: paid for a certain period of time in accordance with the number of customers serviced and the amount of call charges.*
- *Incentives: paid in accordance with the types and numbers of mobile phones sold.*

- In dealer contracts signed with mobile communications service providers, the Company is obligated to repay a part of the commissions it has received if subscribers cancel within a specified period.
- In a reflection of high subscription rates, the rate of growth in new subscribers is declining, causing increased competition among both service providers and

dealers. The intensifying competition may affect the Company's financial performance by reducing profit margins in its Mobile Sales business.

- The Company's store opening plans are largely determined by the regional sales strategies of the mobile communications service providers. While the Company makes decisions on store openings based on its own analyses of growth potential, competition, costs, etc., its plans may be overridden by the marketing policies of the service providers.
- As a part of its strategy to expand its Mobile Sales business, the Company may be engaged in investments in other companies or takeover of other companies or mobile sales divisions in the industry. These investments could have an impact on the Company's financial performance. Market trends or changes in the economic environment may, moreover, prevent the Company from realizing its expected return on investment.

Relationship with NTT DoCoMo

(1) Very high dependence on the NTT DoCoMo brand

- As of March 31, 2006, the Company operated 146 stores in its Mobile Sales business, of which 129 were DoCoMo Shops.
- In the year ended March 2005, 96.3% of products procured for mobile phone sales were from NTT DoCoMo; in the year ended March 2006, the corresponding figure was 97.5%.
- The Company's financial performance could consequently be significantly affected by procurement-related conditions set by NTT DoCoMo and by the market's reactions to NTT DoCoMo's new mobile phones and services.

(2) Distributorship agreements with NTT DoCoMo

- The Company's DoCoMo shops are operated on the basis of distributorship agreements with NTT DoCoMo. These agreements are automatically renewed each year but may be cancelled by either party at any time. The agreements include a provision that permits NTT DoCoMo to cancel them if there is a major change in the structure of the Company's shareholders and if NTT DoCoMo determines that the Company is no longer able to provide completely satisfactory service.
- Cancellation of the distributorship agreements with NTT DoCoMo could undermine the Company's ability to remain in business.

(3) Shop development

- As described above in the section on Mobile Sales risks, the opening of DoCoMo shops is essentially determined in accordance with sales strategies developed by NTT DoCoMo.
- Issues such as location, shop size and operating hours are determined through discussion with NTT DoCoMo. Because of strategic considerations, NTT DoCoMo may request relocation or expansion of existing shops.
- Thus, the Company's financial performance could be affected by the strategies and policies of NTT DoCoMo.

(4) Mobile phone number portability and the entry of new companies into the mobile phone service providers market

- The new system of mobile phone number portability and the entry of new companies into the market could affect the market share of NTT DoCoMo.
- Substantial changes in the market share of NTT DoCoMo could have an impact on the Company's financial performance.

Other risks

(1) Legal environment

- As an installer of mobile base station systems, the Company is subject to the Construction Business Act and the environment-related stipulations it contains.
- As a developer of private mobile radio systems for national government ministries and agencies, local governments and railway companies, the Company is subject to the Radio Law and Product Liability Act.
- As a provider of maintenance services for mobile communications handsets, the Company is subject to the Electrical Appliance and Material Safety Law.
- The Company is subject to a large number of other laws related to retailing, including the Telecommunication Business Law, Anti-Monopoly Act, Premiums and Representations Act, Specified Commercial Transactions Law, Consumer Contract Act, Law for Worker Dispatching and Dispatched Workers and Personal Information Protection Law.

(2) Foreign currency risks

The Company provides components for repair and maintenance of NEC mobile phones in Asia and Europe. The fact that sales and procurement are denominated in U.S. dollars and other currencies gives rise to foreign currency risks.

(3) Human resources

- In the Mobile Integration & Support business, a wide range of abilities and skills in system design is required. Likewise, in the Mobile Sales business, the continual introduction of new products and services requires that employees possess abilities and skills that enable them to attract new customers, to develop marketing programs that expand sales channels, etc.
- The Company views the hiring and nurturing of personnel who meet these requirements to be an essential part of ensuring a successful future.
- An inability to hire and train such personnel could affect the Company's financial performance by reducing the efficiency of its system design and sales operations.

Research and development

During the fiscal year ended March 2006, the Company engaged in research and development related to private mobile radio systems in order to adapt to constant changes in mobile communications technologies. It also pursued new business models related to the mobile solutions business.

These efforts resulted in R&D investment totaling 487 million yen during the fiscal year.

The following is an overview of the Company's major research and development projects during the year.

(1) Mobile communications systems

The Company conducted research and development concerned with radio equipment, control devices and peripheral equipment used in private mobile radio systems. A special focus of its work was the digitalization of simultaneous radio equipment used for emergency radio communications systems.

(2) Mobile solutions

In addition to work on new services that utilize mobile phones, the Company conducted research and development concerned with JAVA-based technologies that support the creation of efficient, advanced applications.

Analysis of financial condition and results of operations

Analysis of financial performance during the year (year-on-year percentage changes)

(1) Net sales

- Sales declined by 9.0%, or 12,605 million yen, to 127,590 million yen.
  - Mobile Software: a decrease in software development work, primarily for PDC (Personal Digital Cellular) handsets, resulted in sales of 9,689 million yen, a 27.2% decline.
  - Mobile Integration & Support: sales declined by 6.7% to 24,811 million yen due to fewer orders for maintenance and support from overseas customers.
  - Mobile Sales: despite efforts to develop replacement demand for FOMA (Freedom of Mobile Multimedia Access) handsets, sales declined by 7.2% to 93,090 million yen due to weakening demand for handsets.

(2) Cost of sales and SG&A expenses

- The cost of sales declined by 13,507 million yen to 114,169 million yen, reflecting a decline in net sales; the cost-of-sales ratio improved by 1.6 points to 89.5%, reflecting the following:
  - Reduced expenses and increased efficiencies in software development for mobile phones, as the business scale contracted
  - Improved productivity in the Mobile Sales business
- SG&A expenses: increased by 600 million yen to 9,232 million yen, reflecting mainly aggressive investment to develop new businesses aimed at bringing “mobility value” to customers.

(3) Non-operating income and expenses

- 82 million yen in non-operating income, primarily foreign exchange gains
- 193 million yen in non-operating expenses, primarily losses on the devaluation and disposal of fixed assets

(4) Extraordinary losses

- 136 million yen in extraordinary losses, primarily from expenses related to transfers of business

Analysis of sources of capital and liquidity (year-on-year comparison)

(1) Cash flows provided by operating activities amounted to 4,324 million yen, an increase of 1,774 million yen, primarily because of lower payments of corporate income taxes on taxable income recognized for the year ended March 2005.

(2) Cash flows used in investing activities amounted to 1,941 million yen, an increase of 912 million yen, as the Company increased its investments to enhance its return on monetary assets.

(3) Cash flows used in financing activities amounted to 659 million yen, an increase of 46 million reflecting an increase in dividends.

Corporate governance

Basic views regarding corporate governance

(1) The Company recognizes that healthy, effective corporate governance is an important means of enhancing corporate value and that achieving this kind of governance depends critically on the following:

- Protecting the rights of shareholders
- Establishing a proper awareness of the corporate social responsibilities
- Developing effective management supervision

(2) Current policies regarding governance

- To protect shareholder rights, the Company considers it necessary to create an environment that will facilitate shareholders' participation in its general meetings of the shareholders through such means as the following:
  - Holding general meetings of the shareholders at an early date
  - Conducting notifications of general meetings of the shareholders and voting on shareholders' resolutions electronically
  - Sending out notifications for general meetings of the shareholders earlier
- With respect to corporate social responsibility, the Company recognizes that it must improve transparency by
  - Creating a proper compliance system
  - Creating systems that enable timely disclosure of all information required of a listed company

- Management supervision: the Company believes that performance by the Board of Directors, the Corporate Auditors and the Board of Corporate Auditors of their supervision and supervisory functions in accordance with their respective roles will provide assurance of the following:
  - Effective execution of business operations
  - Compliance with relevant laws and ordinances
  - Reliability of accounting practices

Specific measures taken with regard to governance

(1) Management organizations involved in decision-making, execution of operations and supervision

- Corporate institutions and internal control systems
  - Monthly Board of Directors meetings, at which decisions are made by directors fully versed in the various businesses
  - Important objective advice provided by outside directors
  - Supervision of management through a system of corporate auditors (All corporate auditors are outside.)
  - Besides auditing operations on a regular basis, the corporate auditors participate in the Board of Directors meetings, where they express opinions concerning the legality of the issues.
- Advice from consulting attorneys, who provide timely the Company with necessary advice on the legality of issues related to management and to overall operations
- In June 2005, the introduction of a system of corporate executive officers that strengthens the management supervision function of the Board of Directors
- In May 2006, a decision by the Board of Directors on a basic policy regarding establishment of internal controlling system that would enhance the effectiveness of the current internal controlling system from the standpoints of compliance, information management and control, risk management, operating efficiency, supervision by corporate auditors, etc.

- Risk management: analysis of risks, preparation of regulations and activities aimed at promoting understanding and follow through
  - Customer Satisfaction Promotion Division:
    - a) Develops policies for compliance with quality related matters and the environment regulations
    - b) Establishes systems to comply with ISO9001 and ISO14001 standards and performs educational functions and internal audits
    - c) Arranges periodic outside audits by BVQI in connection with ISO9001 and ISO14001 standards
    - d) Carries out regular internal auditing to protect personal information
  - Compliance Program Promotion Office:
    - a) Performs matters related to corporate ethics, legal compliance and protection of personal information
    - b) Establishes implementation systems and conducting companywide educational programs on protection of personal information
  - Other actions taken to enhance ethical and legal compliance:
    - a) Establishment of Business Ethics and Compliance Committee in October 2003 to propose, discuss and implement fundamental guidelines related to ethical and legal compliance
    - b) Establishment of NEC Mobiling Help Line in March 2004 to provide mechanism for internal reporting of unethical behavior
    - c) Internal Audit Division under the president conducts periodic reviews of operating and accounting procedures and of compliance with laws and internal regulations
- Internal audits; audits by corporate auditors; financial statements audits
  - Internal Audit Division, six-person staff: supervision of accounting and operating procedures and of compliance with laws and internal regulations
  - Corporate auditors: all corporate auditors attend Board of Directors meetings; two standing corporate auditors also attend all other important management meetings and engage in audits based on interviews and examinations of documents related to decision-making; the corporate auditors regularly exchange information with the Internal Audit Division by means of operations reports.

- Financial statements audits: conducted by ShinNihon (Ernst & Young); the CPAs involved in the auditing of the Company, the names of the CPA engaged in auditing and other related information are shown in the table below. One CPA and three junior accountants also assisted in the most recent audit.

Names of CPAs engaged in auditing	Name of auditing firm	No. of consecutive years of auditing (note)
Tsunetoshi Harada Designated and engagement partner	ShinNihon (Ernst & Young)	-
Masatsugu Hamada Designated and engagement partner	ShinNihon (Ernst & Young)	-
Masahisa Sakaki Designated and engagement partner	ShinNihon (Ernst & Young)	-

Information concerning years of auditing has been omitted because all have been consecutively involved for seven years or less.

- Compensation for Directors and Corporate Auditors
  - Compensation paid to directors: 57 million yen (of which 2 million yen was paid to outside directors)
  - Compensation paid to corporate auditors: 26 million yen
  - Professional fees for financial statements audits: 24 million yen, for audit certification of the financial reports, as stipulated under Article 2-1 of the Certified Public Accountants Law; 2 million yen for other compensation

(2) Relationships between the Company and its outside directors and corporate auditors, including relationships based on personal ties, capital, business relationships, etc.

- Two outside directors are concurrently employees of NEC Corporation, the Company's parent company.
- The two non-standing corporate auditors are concurrently employees of NEC Corporation, while the two standing corporate auditors are former employees of NEC Corporation.

(3) Actions over the past year contributing to the enhancement of corporate governance (fiscal year basis)

- 16 meetings of the Board of Directors
- With respect to compliance: establishment in June 2005 of "compliance leaders" system
  - To disseminate and follow up on compliance in all divisions
  - To strengthen risk management
- With respect to education:
  - Compliance courses for all managers taught by outside instructors
  - Distribution of textbooks on compliance to all employees

Directors

Name	Title	Date joined company	Previous or current employers/occupations	Date of birth	Shares
Yoshitake Matsuo	President	Jun-02	NEC Corp.	2-Jul-45	2,600
Nobuhiro Endo	Member of the Board	Jun-06	NEC Corp. (present)	8-Nov-53	-
Yuichi Kimura	Member of the Board	Jun-06	NEC Corp. (present)	6-Mar-59	-
Takashi Hiyama	Senior Vice President and Member of the Board	Jun-02	NEC Corp.	17-Nov-47	4,200
Hiroki Kawamura	Associate Senior Vice President and Member of the Board	Jun-02	NEC Corp.	10-Nov-47	2,600
Hiromi Orikasa	Associate Senior Vice President and Member of the Board	Jun-04	NEC Corp	1-Nov-48	-
Hitoshi Kawasaki	Corporate Auditor	Jun-04	NEC Corp.	15-Mar-47	-
Hidejirou Tsuchida	Corporate Auditor	Jun-04	NEC Corp.	4-Dec-47	800
Isamu Kawashima	Corporate Auditor	Jun-06	NEC Corp. (present)	20-Feb-59	-
Shigeyuki Fujii	Corporate Auditor	Jun-06	NEC Corp. (present)	12-Nov-59	-
					10,200

Date joined company indicates the latest month and year in which a director joined the Company.

Current assignment and previous positions in the Company have been omitted.

Employees

	Total or average
Number	1,169
	[1,058]
Average age	38.8
Average years of service	12.8
Average annual salary (Yen)	6,484,036

The number of employees refers to full-time employees (excluding those seconded from the Company to other companies and including those seconded to the Company from other companies); temporary employees (those from temporary staffing agencies, etc.) are shown separately in brackets as an annual average.

The average annual salary includes bonuses.

As of March 31, 2006, the Company had 84 employees seconded from NEC group.

At the end of the year, there were 325 fewer employees than a year ago. These were employees who left the Company as of March 31, 2006 because of the Company's transfer of its Mobile Software business to NEC Communications Systems, Ltd. effective April 1, 2006.

Union

The Company has no labor union and enjoys amicable labor relations.

Cash Flows

Nonconsolidated statements of cash flows

Years ended March 31; Thousands of yen	2005	2006
Cash flows from operating activities		
Income before income taxes	3,625,292	3,941,889
Depreciation	922,025	978,594
Decrease in allowance for doubtful accounts	(6,000)	(4,000)
Increase in accrued pension and severance costs	320,817	44,105
Interest and dividend income	(6,419)	(23,482)
Interest expenses	2,544	2,566
Foreign exchange gain	(5,105)	(24,720)
Loss on sales of property and equipment	4,852	2,760
Loss on disposal of property and equipment	41,007	77,531
Loss on disposal of intangible assets	-	11,126
Loss on devaluation of property and equipment	-	25,221
Loss on devaluation of intangible assets	-	139,407
Loss on devaluation of investment securities	50,000	-
Decrease (increase) in notes and accounts receivable, trade	2,962,662	(2,107,537)
Decrease in inventories	957,461	706,290
Increase in accounts receivable, other	(823,264)	(1,102,431)
(Decrease) increase in notes and accounts payable, trade	(3,035,995)	2,484,021
Increase in accrued expenses	216,425	327,404
Increase in consumption tax payable	74,994	6,209
(Decrease) increase in deposits received	(62,872)	159,775
Other	127,218	(32,952)
Sub-total	5,365,642	5,611,776
Proceeds from interest and dividend income	6,419	23,482
Payments for interest expenses	(2,544)	(2,566)
Payments for income taxes and others	(2,819,385)	(1,308,588)
Net cash provided by operating activities	2,550,132	4,324,104
Cash flows from investing activities		
Purchases of property and equipment	(389,216)	(463,361)
Proceeds from sales of property and equipment	996	502
Purchases of intangible assets	(376,323)	(427,438)
Acquisition of sales operations for mobile phones	(108,313)	(36,024)
Purchases of investment securities	-	(1,005,000)
Investments in affiliated company	(163,607)	-
Other	7,593	(9,953)
Net cash used in investing activities	(1,028,870)	(1,941,274)

Years ended March 31; Thousands of yen	2005	2006
Cash flows from financing activities		
Dividends paid	(613,496)	(658,908)
Net cash used in financing activities	(613,496)	(658,908)
Effect of exchange rate changes on cash and cash equivalents	5,105	24,720
Increase in cash and cash equivalents	912,871	1,748,642
Cash and cash equivalents at beginning of year	11,218,266	12,131,137
Cash and cash equivalents at end of year	12,131,137	13,879,779

Relationship between balance of cash and cash equivalents as of year-end and balance sheet items

Year ended March 31; Thousands of yen	2005	2006
Cash on hand and in banks	9,131,065	9,879,679
Affiliated company deposits	3,000,072	4,000,100
Cash and cash equivalents at end of year	12,131,137	13,879,779

Capital expenditures

The Company expended 993 million yen on capital investment during the year, mainly on information systems designed to improve management efficiency and on store renovations and relocations in the Mobile Sales business. These expenditures broke down as follows:

- Buildings and structures: 341 million yen
- Tools, furniture and fixtures: 118 million yen
- Software: 516 million yen

There were no significant disposals or sales of assets during the year.

Capital expenditure and disposal plans

The Company's capital investment plans take into consideration economic forecasts, industry trends, forecasted earnings, investment returns, etc. For the year to March 2007, the Company is planning to spend 1.8 billion yen on the following major capital investments, which it will finance internally.

Millions of yen	Budgeted amount	Expenditures to date	Date commenced	Date completed
Head Office				
Business management systems, etc.	50	-	2006/4	2007/3
Related to relocation of company head office, etc.	100	-	2006/4	2007/3
Test equipment required for new technologies; maintenance facilities; etc.	150	-	2006/4	2007/3
Equipment and software for use in Mobile Solutions business	190	-	2006/4	2007/3
Head office and Kanto Koshinetsu region, etc.				
Opening, relocation and renovation of stores; store management systems; etc.	1,310	-	2006/4	2007/3
	1,800	-	-	-

Dividend policy

In determining dividends, the Company takes into account its need for sufficient retained earnings to finance measures aimed at strengthening its base of operations and at expanding its businesses. At the same time, it accords respect and importance to its shareholders, and as a reflection of this, takes payout ratios into consideration in determining dividends, while placing primary importance on its ability to maintain dividend stability.

In accordance with the foregoing policy, the Company will pay an annual dividend of 45 yen per share (of which 22.50 yen has been paid as an interim dividend) for the fiscal year ended March 31, 2006.

With respect to retained earnings, the Company's policy will be to invest in the following key areas: R&D in new technologies required to adapt to future demands concerning mobile communications and to expand into the area of mobile solutions; development of new business models; quality control; human resources development; and strategic investments.

The Board of Directors' resolution concerning the interim dividend for the year ended March 31, 2006 was adopted on October 27, 2005.

Operations

Nonconsolidated statements of income

Years ended March 31; Thousands of yen	2005	2006
Net sales		
Mobile Software business	13,317,757	9,688,913
Mobile Integration & Support business	26,605,628	24,810,468
Mobile Sales business	100,271,732	93,090,272
	140,195,117	127,589,653
Cost of sales		
Mobile Software business	13,311,041	9,360,094
Mobile Integration & Support business	21,273,207	19,697,313
Mobile Sales business	93,091,975	85,111,118
	127,676,223	114,168,525
Gross profit	12,518,894	13,421,128
Selling, general and administrative expenses	8,632,305	9,231,960
Operating income	3,886,589	4,189,168
Non-operating income		
Interest income	6,312	8,815
Dividend income	107	14,667
Commissions received	7,347	7,231
Foreign exchange gain	2,367	45,085
Miscellaneous income	2,052	5,874
	18,185	81,672
Non-operating expenses		
Interest expenses	2,544	2,566
Loss on sales of fixed assets	5,147	-
Loss on disposal of fixed assets	41,007	88,657
Loss on devaluation of fixed assets	-	94,237
Miscellaneous expenses	1,085	7,100
	49,783	192,560
Ordinary income	3,854,991	4,078,280
Extraordinary gains		
Reversal of allowance for doubtful accounts	6,000	-
	6,000	-

Years ended March 31; Thousands of yen	2005	2006
Extraordinary losses		
Expenses related to transfer of business	-	136,391
Amortization of transition obligation under new pension accounting	185,699	-
Loss on devaluation of investment securities	50,000	-
	235,699	136,391
Income before income taxes	3,625,292	3,941,889
Corporate, inhabitant and enterprise taxes	1,669,306	2,114,884
Deferred income taxes	(149,089)	(290,128)
	1,520,217	1,824,756
Net income	2,105,075	2,117,133
Unappropriated retained earnings at beginning of year	719,971	671,224
Interim dividends	326,911	326,912
Unappropriated retained earnings at end of year	2,498,135	2,461,445

Nonconsolidated appropriation of retained earnings

Years ended March 31; Thousands of yen	2005	2006
Unappropriated retained earnings at end of year	2,498,135	2,461,445
Appropriation of retained earnings		
Dividends	326,911	326,911
Appropriation		
General reserves	1,500,000	1,400,000
	1,826,911	1,726,911
Retained earnings carried forward to the following year	671,224	734,534

Cost of goods sold

Years ended March 31; Thousands of yen	2005	2006
Cost of sales - Mobile Software		
Materials at beginning of year	-	-
Purchases of materials	127,331	16,284
	127,331	16,284
Materials at end of year	-	-
Cost of materials	127,331	16,284
Cost of labor	2,149,738	1,923,844
Manufacturing overhead		
Outsourcing expenses	8,349,269	5,265,557
Rental expenses	1,442,648	698,739
Subcontracting expenses	517,704	350,238
Communications expenses	94,125	62,966
Supplies	68,574	76,474
Other	411,138	316,493
	10,883,458	6,770,467
Manufacturing costs	13,160,527	8,710,595
Semifinished components and work in process at beginning of year	862,630	701,766
	14,023,157	9,412,361
Semifinished components and work in process at end of year	701,766	30,859
Transfers to other accounts		
Fixed assets	10,350	21,408
Cost of sales - Mobile Software	13,311,041	9,360,094

Years ended March 31; Thousands of yen	2005	2006
Cost of sales - Mobile Integration & Support		
Materials at beginning of year	522,385	743,924
Purchases of materials	10,554,461	9,550,177
	11,076,846	10,294,101
Materials at end of year	743,924	624,311
Cost of materials	10,332,922	9,669,790
Cost of labor	2,835,407	3,035,375
Manufacturing overhead		
Outsourcing expenses	6,412,595	5,511,743
Rental expenses	749,922	701,817
Subcontracting expenses	687,564	835,892
Travel expenses	227,006	238,150
Other	917,957	1,228,318
	8,995,044	8,515,920
Manufacturing costs	22,163,373	21,221,085
Semifinished components and work in process at beginning of year	1,156,440	572,109
	23,319,813	21,793,194
Semifinished components and work in process at end of year	572,109	447,067
Transfers to other accounts		
Selling, general and administrative expenses	986,185	1,081,663
Research and development expenses	436,444	442,000
Other	72,741	145,088
	1,495,370	1,668,751
Production costs	21,252,334	19,677,376
Purchases of merchandise	-	30,103
	21,252,334	19,707,479
Merchandise at end of year	-	1,030
	21,252,334	19,706,449
Deduction from cost of merchandise based on revaluations in accordance with lower-of-cost-or-market method	-	6
Addition to (deduction from) cost of raw materials based on revaluations in accordance with lower-of-cost-or-market method	20,873	(9,142)
Cost of sales - Mobile Integration & Support	21,273,207	19,697,313

Years ended March 31; Thousands of yen	2005	2006
Cost of sales - Mobile Sales		
Mobile terminal sales		
Merchandise at beginning of year	3,599,124	3,181,226
Purchases of merchandise	83,098,390	84,461,691
Incentives received	(59,827,774)	(65,978,481)
	26,869,740	21,664,436
Merchandise at end of year	3,181,226	3,607,460
Transfers to other accounts		
Selling, general and administrative expenses	18,589	39,687
Store operation expenses	140,840	138,560
Other	7,987	7,639
	167,416	185,886
	23,521,098	17,871,090
Sales commission paid	58,537,248	56,248,648
Cost of sales related to mobile terminal equipment	82,058,346	74,119,738
Store operation expenses	9,975,377	9,736,415
Cost of mobile terminal sales	92,033,723	83,856,153
(Breakdown of store operation expenses)		
Wages and salaries	3,485,042	3,592,456
Overhead expenses		
Subcontracting expenses	4,268,374	4,330,418
Rental expenses	1,621,417	1,614,558
Transportation costs	499,906	419,335
Sales promotion expenses	488,440	529,996
Other	1,583,916	2,007,696
Reimbursement of operating expenses	(1,971,718)	(2,758,044)
	6,490,335	6,143,959
	9,975,377	9,736,415

Years ended March 31; Thousands of yen	2005	2006
Other sales (non-mobile terminal sales)		
Materials at beginning of year	501	12,550
Purchases of materials	822,152	664,166
	822,653	676,716
Materials at end of year	12,550	12,180
Cost of materials	810,103	664,536
Cost of labor	59,792	112,236
Manufacturing overhead		
Subcontracting expenses	134,786	231,488
Taxes and public dues	3,670	6,185
Travel expenses	3,852	3,644
Supplies	30,587	22,630
Rental expenses	9,873	7,854
Commission paid	35,387	48,126
Other	15,904	75,091
	234,059	395,018
Manufacturing costs	1,103,954	1,171,790
Semifinished components and work in process at beginning of year	15,753	23,935
	1,119,707	1,195,725
Semifinished components and work in process at end of year	23,935	41,664
Transfers to other accounts		
Selling, general and administrative expenses	84,497	97,335
Research and development expenses	38,329	44,733
	122,826	142,068
Production costs	972,946	1,011,993
Merchandise at beginning of year	200,958	229,657
Finished products at beginning of year	66,713	66,170
Purchases of merchandise	124,823	119,765
	1,365,440	1,427,585
Merchandise at end of year	229,657	44,871
Finished products at end of year	66,170	15,501
Transfers to other accounts		
Selling, general and administrative expenses	8,376	112,046
Other	3,024	195
	11,400	112,241
	1,058,213	1,254,972
(Deduction from) addition to cost of merchandise based on revaluations in accordance with lower-of-cost-or-market method	(5)	37
Addition to (deduction from) cost of raw materials based on revaluations in accordance with lower-of-cost-or-market method	44	(44)
Cost of other sales (non-mobile terminal sales)	1,058,252	1,254,965
Cost of sales - Mobile Sales	93,091,975	85,111,118

Results of operations

Fiscal year ended March 31, 2006

Economic and other factors affecting operations (year-on-year percentage changes)

(1) The economic recovery in Japan persisted as high levels of corporate profits fed further increases in capital investment. Nevertheless, a continued downward trend in public works spending and only moderate success in solving deflation made the business environment a difficult one for the Company

(2) In the mobile communications market, the principal driver of growth was users' replacement demand for high-functional mobile phones, as demonstrated by the following:

- A modest 5.5% increase in the cumulative subscription base to 91.79 million subscribers during the year
- A 5.6% decline in net new subscriptions to 4.79 million
- A 59.2% increase in handsets supporting 3G service to 48.33 million
- A 104.0% increase in FOMA subscriptions to 23.46 million, a number accounting for 46% of total NTT DoCoMo subscribers

Strategic responses

(1) Focusing on expanding sales of FOMA handsets and on developing mobile solutions

(2) Improving operating efficiencies, particularly in the following areas where demand has been falling:

- Software development for mobile phones
- Private mobile radio systems
- Mobile phone maintenance services

Financial highlights: sales decline but profits rise.

(1) Sales: declined by 9.0% to 127,590 million yen, because of

- Lower sales of mobile software due to a decline in software development for handsets
- Lower mobile sales because of decrease of subscriber churn rates, or contract termination rates, resulting in weaker sales of new handsets

(2) Operating income and ordinary profit: both up, by 7.8% to 4,189 million yen and by 5.8% to 4,078 million yen, respectively

- The result of improved efficiency in Mobile Sales operations
- Offsetting higher costs-of- sales ratio in private mobile radio systems due to high competition and expenses of up-front investment for cultivating new business

Segment information

(1) Mobile Software: sales declined by 27.2% to 9,689 million yen; operating income was 117 million yen.

- Software developed for FOMA handsets manufactured by NEC for NTT DoCoMo and for 3G mobile communication base station systems; also sought new software development business
- Sales dampened by a decline in software development for PDC handsets
- Some reduction in expenses, primarily of outsourcing expenses, and other improvements in efficiency allowed the business to turn the year-earlier deficit into a slight profit.

(2) Mobile Integration & Support: sales declined by 6.7% to 24,811 million yen; operating income declined by 18.3% to 1,912 million yen.

- Decline in overseas maintenance and support sales
- Despite successful measures to improve efficiency in maintenance and support business, deterioration in cost-of-sales ratio in private mobile radio systems reduced margins.

(3) Mobile Sales: sales declined by 7.2% to 93,090 million yen; operating income increased by 10.2% to 2,160 million yen.

- Market dynamics: shrinking number of new subscribers and longer phone replacement periods, reflected in falling churn rates; this, in turn, led to reduced demand for handsets and increased competition among dealers.
- In this market, the focus on increasing sales of FOMA handsets through the introduction of new models with higher function and expanding service areas; also on developing mobile phone sales networks.
- The Company also endeavored to improve operating efficiency by improving the productivity of its retail stores, etc.
- Despite expenses caused by aggressive investment in new businesses, which

are being developed to provide customers with “mobility value”, operating income increased as a result of improved operating efficiencies.

Issues requiring action

(1) Assessment of environment: a period of major transformation in the mobile communications market, affected by

- The implementation of mobile phone number portability, and intensifying competition among mobile phone service providers from entrants of new providers, M&A activity, etc.
- The appearance of Mobile Virtual Network Operators (MVNO) and increasing interest in Fixed Mobile Convergence (FMC)
- Market saturation; decline in the growth of new subscribers

Despite an increasingly difficult competitive situation, the Company believes that this transformation will give rise to many new markets and business opportunities, which it will develop by focusing on the following:

- Mobile phone sales, taking advantage of replacement demand for new models, where demand is projected to be strong
- Handset repair and maintenance services
- Developing businesses that provide customers with various kinds of mobility value by expanding the breadth and depth of the Company’s knowledge and technical capabilities

(2) Issues: to achieve these aims, the Company must deal with the following vital issues:

- Understand what constitutes mobility value for customers and strengthen its consulting capabilities—its ability to propose optimum ways of utilizing the mobile environment
- Develop an incubation capability that will support the uncovering of new business opportunities and the nurturing and growth of new businesses

Dealing with these issues will require the Company to engage in the following actions:

- Develop an organizational framework that will enable it to utilize its resources effectively, in particular the sales resources that it has deployed around the country
- Nurture and develop its human resources
- Continue the companywide program of operating process reform
- Take further steps toward management reform through restructuring, with a focus on reallocating companywide resources to priority businesses

Production and sales

Production

Thousands of yen	2006	
	Amount	Year-on-year comparison (%)
Mobile Software	9,688,913	72.8
Mobile Integration & Support	24,785,356	93.2
Mobile Sales	1,007,786	98.7
	35,482,055	86.7

Procurement

Thousands of yen	2006	
	Amount	Year-on-year comparison (%)
Mobile Integration & Support	30,103	-
Mobile Sales	84,581,456	101.6
	84,611,559	101.7

Orders

Thousands of yen	2006			
	Orders		Orders outstanding	
	Amount	Year-on-year comparison (%)	Amount	Year-on-year comparison (%)
Mobile Software	9,596,752	73.1	52,250	36.2
Mobile Integration & Support	24,832,209	95.9	1,012,432	102.2
Mobile Sales	1,025,568	98.5	67,545	30.5
	35,454,529	88.5	1,132,227	83.5

Net sales

Thousands of yen	2006	
	Amount	Year-on-year comparison (%)
Mobile Software	9,688,913	72.8
Mobile Integration & Support	24,810,468	93.3
Mobile Sales	93,090,272	92.8
	127,589,653	91.0

Principal customers of net sales

Thousands of yen	2005		2006	
	Amount	% of net sales	Amount	% of net sales
NEC Corporation	34,424,693	24.6%	30,964,570	24.3%
NTT DoCoMo, Inc. (including eight regional companies)	35,008,813	25.0%	30,352,611	23.8%

Main items involved in selling, general and administrative expenses

Years ended March 31; Thousands of yen	2005	2006
Salaries and allowances	2,376,076	2,379,608
Employees' bonuses	777,941	751,145
Pension and severance costs	192,172	214,786
Welfare expenses	408,594	436,994
Rental expenses	610,351	663,380
Depreciation expenses	518,422	556,342
Subcontracting expenses	694,797	879,290
Research and development expenses	474,773	486,733
Repair and maintenance expenses	1,069,864	1,169,284

Leases

Under generally accepted accounting principles in Japan, finance leases that do not transfer ownership are accounted for in the same manner as operating leases when "as if capitalized" information is disclosed.

The Company's main finance lease contracts are as follows:

Millions of yen	Current payments	Rent or lease
Buildings	1,705	Rent
Tools, furniture and fixtures	312	Lease

Pro forma information on leased property is as follows:

Thousands of yen	2005	2006
Machinery and equipment		
Acquisition cost	10,392	10,392
Accumulated depreciation	5,629	8,227
Net leased property	4,763	2,165
Vehicles and delivery equipment		
Acquisition cost	8,096	8,096
Accumulated depreciation	3,758	5,377
Net leased property	4,338	2,719
Tools, furniture and fixtures		
Acquisition cost	832,920	725,504
Accumulated depreciation	392,708	420,204
Net leased property	440,212	305,300
Total		
Acquisition cost	851,408	743,992
Accumulated depreciation	402,095	433,808
Net leased property	449,313	310,184
Future minimum lease payments, including interest portion		
Due within one year	202,063	157,488
Due after one year	252,717	157,705
	454,780	315,193

Thousands of yen	2005	2006
Lease payments; reversal of liability for leased asset impairment; amounts equivalent to depreciation and interest expenses; and impairment losses		
Lease payments	300,045	219,257
Pro forma depreciation expenses	289,485	212,110
Pro forma interest expenses	9,278	6,691

March 2006 term

(Regarding impairment losses)

The Company has not recognized any impairment losses on its lease assets.

Capital Structure

Nonconsolidated balance sheets

Assets

Years ended March 31; Thousands of yen	2005	2006
Current assets		
Cash on hand and in banks	9,131,065	9,879,679
Notes receivable, trade	3,833	14,020
Accounts receivable, trade	18,306,706	20,404,056
Merchandise	3,410,865	3,653,300
Finished products	66,170	15,501
Semifinished components	211,249	138,111
Raw materials	728,004	617,206
Work in process	1,086,561	381,479
Advances paid	36	39
Prepaid expenses	226,671	228,391
Deferred tax assets	612,276	971,469
Accounts receivable, other	7,096,540	8,198,971
Affiliated company deposits	3,000,072	4,000,100
Other	476,960	462,889
Allowance for doubtful accounts	(93,000)	(91,000)
	44,264,008	48,874,211
Fixed assets		
Property and equipment		
Buildings	1,098,726	1,179,973
Accumulated depreciation	(540,156)	(548,977)
	558,570	630,996
Structures	187,200	239,333
Accumulated depreciation	(71,996)	(89,830)
	115,204	149,503
Machinery and equipment	137,355	141,565
Accumulated depreciation	(93,610)	(103,893)
	43,745	37,672
Tools, furniture and fixtures	1,478,534	1,498,262
Accumulated depreciation	(998,209)	(1,087,031)
	480,325	411,231
Construction in progress	-	14,675
	1,197,844	1,244,077

Years ended March 31; Thousands of yen	2005	2006
Intangible assets		
Goodwill	643,842	369,192
Trademarks	11,373	9,292
Software	852,746	936,857
Other	73,687	7,878
	1,581,648	1,323,219
Investments and other assets		
Investment securities	9,530	968,707
Investments in affiliated companies	163,607	163,607
Long-term loans to employees	369	355
Receivables from companies in bankruptcy and reorganization	44,852	42,880
Long-term prepaid expenses	9,482	14,891
Deferred tax assets	1,366,932	1,316,287
Lease deposits	2,117,806	2,310,840
Other	637	245,662
Allowance for doubtful accounts	(42,000)	(40,000)
	3,671,215	5,023,229
Total fixed assets	6,450,707	7,590,525
Total assets	50,714,715	56,464,736

Liabilities and shareholders' equity

Years ended March 31; Thousands of yen	2005	2006
Current liabilities		
Notes payable, trade	619,105	402,002
Accounts payable, trade	12,730,898	15,358,954
Accounts payable, other	485,491	661,495
Accrued expenses	9,554,201	9,881,605
Accrued corporate taxes	589,793	1,407,827
Advances received	2,348	9,577
Deposits received	823,748	983,524
Reserve for point service program	1,000	-
	24,806,584	28,704,984
Long-term liabilities		
Accrued pension and severance costs	3,183,429	3,540,965
Deposits received for guarantees	166,856	224,535
	3,350,285	3,765,500
Total liabilities	28,156,869	32,470,484
Shareholders' equity		
Common stock	2,370,780	2,370,780
Additional paid-in capital		
Additional paid-in capital	2,706,780	2,706,780
	2,706,780	2,706,780
Retained earnings		
Legal reserves	21,420	21,420
Voluntary reserves		
General reserves	14,960,000	16,460,000
Unappropriated retained earnings	2,498,135	2,461,445
	17,479,555	18,942,865
Unrealized gains (losses) on marketable securities	731	(26,173)
Total shareholders' equity	22,557,846	23,994,252
Total liabilities and shareholders' equity	50,714,715	56,464,736

Trade credits

Notes receivable, trade

Thousands of yen	2006
Ryoden Shonan Electronics Corp.	11,900
NEC Networks & System Integration Corporation	1,500
Tai-Jidosha Co., Ltd.	620
	14,020

Accounts receivable, trade

Thousands of yen	2006
NEC Corporation	9,155,191
NTT DoCoMo, Inc.	1,756,204
Business Service Co., Ltd.	712,385
Konan Hanbai Co., Ltd.	695,953
NTT DoCoMo Kansai, Inc.	563,572
Other	7,520,751
	20,404,056

Turnover of accounts receivable, trade

Thousands of yen	2006
Beginning balance	18,306,706
Increase	129,092,148
Collected	126,994,798
Ending balance	20,404,056
Turnover	86.2%
Average days for collection	54.7

Notes payable, trade

Thousands of yen	2006
Satori Electric Co., Ltd.	90,399
HIC Co., Ltd.	66,181
Toppan Printing Co., Ltd.	45,513
SUNARROW LIMITED	31,805
Cosmo Maintenance Co., Ltd.	19,187
Other	148,917
	402,002

Accounts payable, trade

Thousands of yen	2006
NTT DoCoMo, Inc.	4,623,240
NEC Leasing, Ltd.	1,966,193
NTT DoCoMo Kansai, Inc.	1,551,975
NTT DoCoMo Tohoku, Inc.	864,563
Hitachi Kokusai Electric Inc.	728,699
Other	5,624,284
	15,358,954

Market value of securities

Other quoted securities

	2005			2006		
Thousands of yen	Cost of acquisition	Book value	Unrealized gain (loss)	Cost of acquisition	Book value	Unrealized gain (loss)
Securities valued on the balance sheet at amounts exceeding the purchase cost						
Shares	8,300	9,530	1,230	7,800	8,700	900
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Other	-	-	-	-	-	-
Other	-	-	-	-	-	-
	8,300	9,530	1,230	7,800	8,700	900
Securities valued on the balance sheet at amounts not exceeding the purchase cost						
Shares	-	-	-	-	-	-
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Other	-	-	-	-	-	-
Other	-	-	-	1,005,000	960,007	(44,993)
	-	-	-	1,005,000	960,007	(44,993)
	8,300	9,530	1,230	1,012,800	968,707	(44,093)

Facilities

Thousands of yen	Buildings and structures	Machinery and equipment	Tools, furniture and fixtures	Software	Total book value	Number of employees
Head office						
Equipment appurtenant to buildings Testing equipment Software Manufacturing equipment	124,698	37,672	215,527	925,474	1,303,371	564
Hokkaido region Hokkaido branch and 10 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment Software	20,467	-	4,088	552	25,107	14
Tohoku region Tohoku branch and 5 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment Software	32,739	-	4,768	165	37,672	37
Kanto Koshinetsu region Tokyo branch and 50 stores						
Equipment appurtenant to buildings Store furnishings	363,805	-	99,171	2,495	465,471	300
Tokai region Chubu branch and 7 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment Software	72,566	-	23,192	-	95,758	32
Hokuriku region Hokuriku branch and 2 stores						
Equipment appurtenant to buildings Store furnishings	13,149	-	4,392	188	17,729	9
Kansai region Osaka office and 9 stores						
Equipment appurtenant to buildings Store furnishings Testing equipment Software	67,582	-	23,401	907	91,890	110
Chugoku region Chugoku branch and 6 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment Software	28,845	-	15,602	65	44,512	30
Shikoku region Shikoku branch and 3 stores						
Equipment appurtenant to buildings Store furnishings	7,139	-	3,397	-	10,536	10
Kyushu region Kyushu branch and 9 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment Software	45,435	-	16,860	279	62,574	60

Thousands of yen	Buildings and structures	Machinery and equipment	Tools, furniture and fixtures	Software	Total book value	Number of employees
Hong Kong branch						
Office furnishings Software	4,074	-	833	6,732	11,639	3
	780,499	37,672	411,231	936,857	2,166,259	1,169

Securities

Marketable and investment securities

Thousands of yen		
Shares	**Number of shares**	**Book value**
Investment securities		
Other securities	50	8,700
Others	**Total face value**	**Book value**
Investment securities		
Other securities	90,686	960,007

Fixed assets

Thousands of yen	Beginning of year	Increase	Decrease	End of year	Depreciation		End of year, net
					Accumulated	Current	
Property and equipment							
Buildings	1,098,726	270,608	189,361	1,179,973	548,977	120,010	630,996
Structures	187,200	70,171	18,038	239,333	89,830	29,281	149,503
Machinery and equipment	137,355	4,210	-	141,565	103,893	10,283	37,672
Tools, furniture and fixtures	1,478,534	117,667	97,939	1,498,262	1,087,031	165,569	411,231
Construction in progress	-	477,331	462,656	14,675	-	-	14,675
	2,901,815	939,987	767,994	3,073,808	1,829,731	325,143	1,244,077
Intangible assets							
Goodwill	1,465,200	25,000	-	1,490,200	1,121,008	299,650	369,192
Trademarks	17,255	-	-	17,255	7,963	2,081	9,292
Software	1,764,250	515,976	662,524	1,617,702	680,845	346,996	936,857
Other	74,055	-	65,664	8,391	513	145	7,878
	3,320,760	540,976	728,188	3,133,548	1,810,329	648,872	1,323,219
Long-term prepaid expenses	21,076	10,734	-	31,810	16,919	5,325	14,891

Retirement benefits

Outline of retirement benefit system

The Company has established the following defined-benefit pension plans: a corporate pension system; a tax-qualified pension plan; and a system in which it pays lump-sum benefits upon retirement.

The Company's corporate pension fund is a part of the NEC corporate pension fund established in December 2003.

The Company's contract-based defined-benefit pension plan replaced its previously existing tax-qualified pension plan in April 2005.

The Company may pay additional retirement benefits to employees.

Items related to retirement benefit obligations

Thousands of yen	2005	2006
Benefit obligations	(5,971,539)	(6,299,267)
Pension assets	1,992,819	2,674,999
Unfunded benefit obligations	(3,978,720)	(3,624,268)
Unrecognized actuarial losses	1,290,846	789,521
Unrecognized prior service costs	(325,555)	(222,788)
Amounts recognized on balance sheets	(3,013,429)	(3,057,535)
Prepaid pension and severance costs	170,000	483,430
Accrued pension and severance costs	(3,183,429)	(3,540,965)

Items related to pension and severance costs

Thousands of yen	2005	2006
Service costs	458,597	474,032
Interest expenses	134,721	149,288
Expected return on pension fund assets (subtraction)	47,063	51,451
Amortization of unrecognized service costs (subtraction)	23,254	17,574
Amortization of unrecognized actuarial loss	74,688	97,264
Amortization of unrecognized transition obligations under new pension accounting	185,699	-
Additional retirement benefits	9,268	20,148
	792,656	671,707

Assumptions underlying the calculation of retirement benefit obligations

	2005	2006
Discount rate	2.5%	Same as 2005
Expected rate of return	2.5%	Same as 2005
Method of allocating prospective retirement benefits to each term	Equal payments basis	Point basis
Amortization period for prior service costs	15 years	Same as 2005
Amortization period for transition obligations under new pension accounting	5 years	-
Amortization period for actuarial loss	15 years	Same as 2005

Deferred taxes

Thousands of yen	2005	2006
Deferred tax assets	1,979,708	2,287,756
Deferred tax liabilities	(500)	-
Deferred tax assets - net	1,979,208	2,287,756

Percentage		
Statutory tax rate	The difference between the effective tax rate as stipulated by law and the corporate tax rate after application of an interperiod tax allocation is less than 5 percent; no breakdown is shown in this section.	40.64
<Adjustment>		
Expenses not deductible for tax purposes (such as entertainment expenses)		1.05
Corporate income taxes for prior years		1.88
Tax credits		(1.98)
Difference with uncertainty in schedule for deduction		5.64
Others		(0.94)
Income tax and others accompanying adoption of tax effect accounting		46.29

Reserves

Thousands of yen	Beginning of year	Increase	Decrease	End of year
Allowance for doubtful accounts	135,000	131,000	135,000	131,000
Reserve for point service program	1,000	-	1,000	-

Related Parties

Transactions with related parties

March 31; Millions of yen	Address	Capital or investment	% of voting rights held (held by others)	Relationship: Director	Relationship: Business relationship	Type of transaction	Value of transactions	Accounting classification	Balance at term-end
2006									
Parent company and primary institutional shareholders, etc.									
NEC Corporation	Minato-ku, Tokyo	337,821	Direct: 51.00	3	Software development, installation and maintenance of mobile communications equipment, etc.	Software development, installation and maintenance of mobile communications equipment, etc.	30,965	Accounts receivable, trade	9,155
						Deposits held by parent company	1,000	Affiliated company deposit	4,000
Partner companies, etc.									
Subsidiary of parent company									
NEC Saitama, Ltd.	Kamikawa-machi, Kodama-gun, Saitama	200	None	None	Procurement of parts and components for repair of mobile communications equipment, etc.	Purchases of parts for maintenance, etc.	4,629	Accounts payable, trade	443
NEC Facilities, Ltd	Minato-ku, Tokyo	240	None	None	Leasing of buildings	Building leasing; payment of lease deposits	1,996 25	Lease deposits	723
2005									
Parent company and primary institutional shareholders, etc.									
NEC Corporation	Minato-ku, Tokyo	337,820	Direct: 51.00	4	Software development, installation and maintenance of mobile communications equipment, etc.	Software development, installation and maintenance of mobile communications equipment, etc.	34,425	Accounts receivable, trade	6,678
						Deposits held by parent company	-	Affiliated company deposit	3,000
Partner companies, etc.									
Subsidiary of parent company									
NEC Saitama, Ltd.	Kamikawa-machi, Kodama-gun, Saitama	200	None	None	Procurement of parts and components for repair of mobile communications equipment	Purchases of parts for maintenance, etc.	5,125	Accounts payable, trade	452
NEC Facilities, Ltd	Minato-ku, Tokyo	240	None	None	Leasing of buildings	Building leasing; payment of lease deposits	1,869 698	Lease deposits	698

Accounting Policies

Summary of accounting policies: nonconsolidated

Basis for presentation	Japanese GAAP
Marketable securities and investments in securities	Other securities: Quoted securities: the market value method is applied, based on the market value as of the fiscal year-end. The entire positive or negative valuation difference from the purchase price is booked directly as shareholder's equity, and the cost of securities sold is calculated using the moving-average method. Unquoted securities: valued at cost using the moving-average method
Inventories	Merchandise, finished products, semifinished components and raw materials: valued at lower of cost or market, on a FIFO basis Work in process: valued at cost using the specific identification method
Depreciation	Property and equipment: declining-balance method Intangible assets: straight-line method Software held for sale: amortization calculated on the basis of number of unit sales forecast for the projected marketing period (3 years). Software for internal use: amortized on a straight-line basis (based on the length of useful internal life (5 years))
Allowance for doubtful accounts	To provide for potential losses from doubtful accounts, the Company recognizes an amount calculated on the basis of a historical bad debt ratio for general accounts receivable plus an amount for specific accounts for which collection appears doubtful.
Accrued pension and severance costs	To provide for employees' retirement benefits, the Company recognizes an amount based on retirement benefit obligations and estimated pension assets as of the end of the fiscal year to March 2006.
Opinion of independent auditors	Auditors: ShinNihon (Ernst & Young) Opinion: unqualified

Share-related Information

Shares in issue

Class of shares	Common
Registered or bearer	Registered
Number of shares authorized	48,000,000
Issued	
As of March 31, 2006	14,529,400
As of June 23, 2006	14,529,400
Stock exchange listings	Tokyo Stock Exchange, First Section
Comments	-

Changes in common stock and number of shares issued

Shares	Shares outstanding		Common stock		Additional paid-in capital		
Thousands of yen Date	Increase or decrease	Balance	Increase or decrease	Balance	Increase or decrease	Balance	Remarks
July 24, 2001	11,665,430	12,279,400	-	935,280	-	335,280	Each 500 yen par value share split into 20 shares with 50 yen par value. *(Plus: Confirm as per page 3.)*
February 22, 2002	2,250,000	14,529,400	1,435,500	2,370,780	2,371,500	2,706,780	Public offering of shares (public offering using the book-building formula)

Shareholders by type of investor

Type of investor	Number of shareholders	Number of units owned	% owned
National and local government agencies	-	-	-
Financial institutions	43	20,153	13.87
Securities companies	34	1,826	1.26
Businesses and other corporations	86	75,356	51.86
Non-residents: businesses and corporations	53	9,491	6.53
Non-residents: individuals	5	10	0.01
Individuals and others	10,475	38,453	26.47
	10,696	145,289	100.00
Number of shares less than one unit	-	500	-

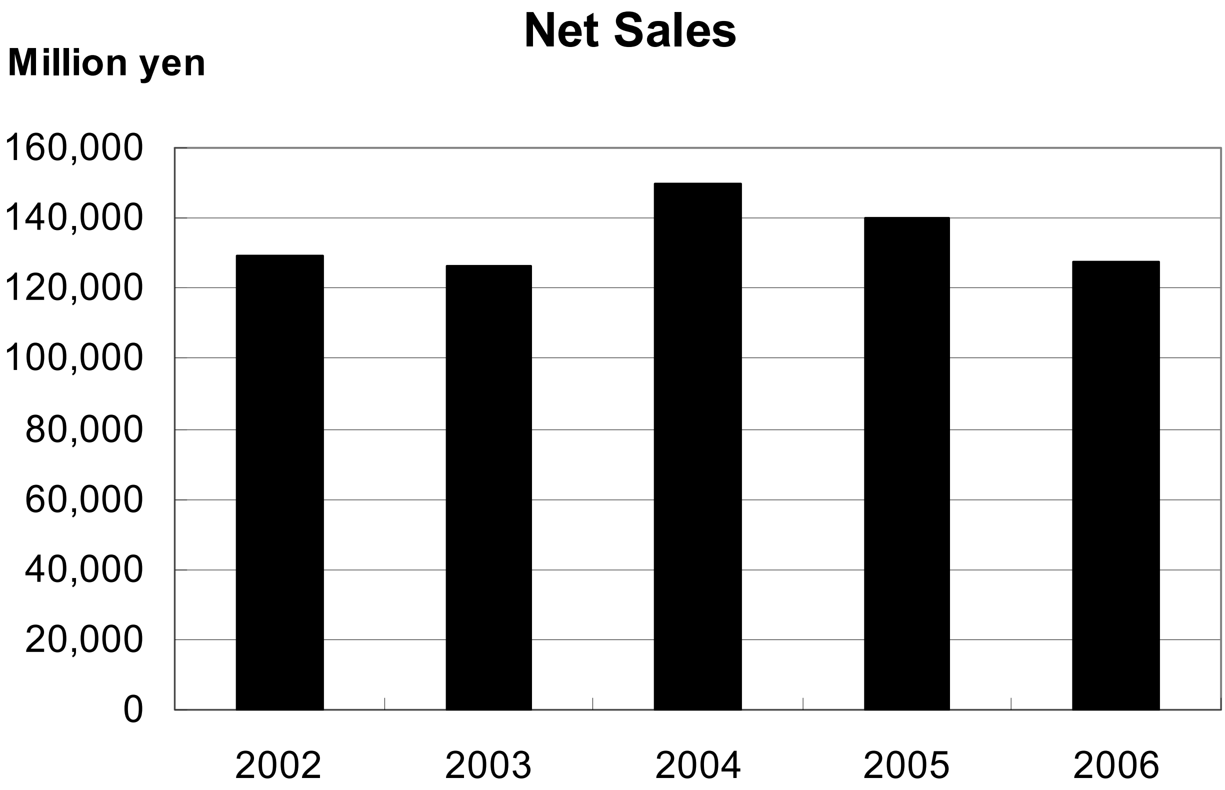
Largest shareholders

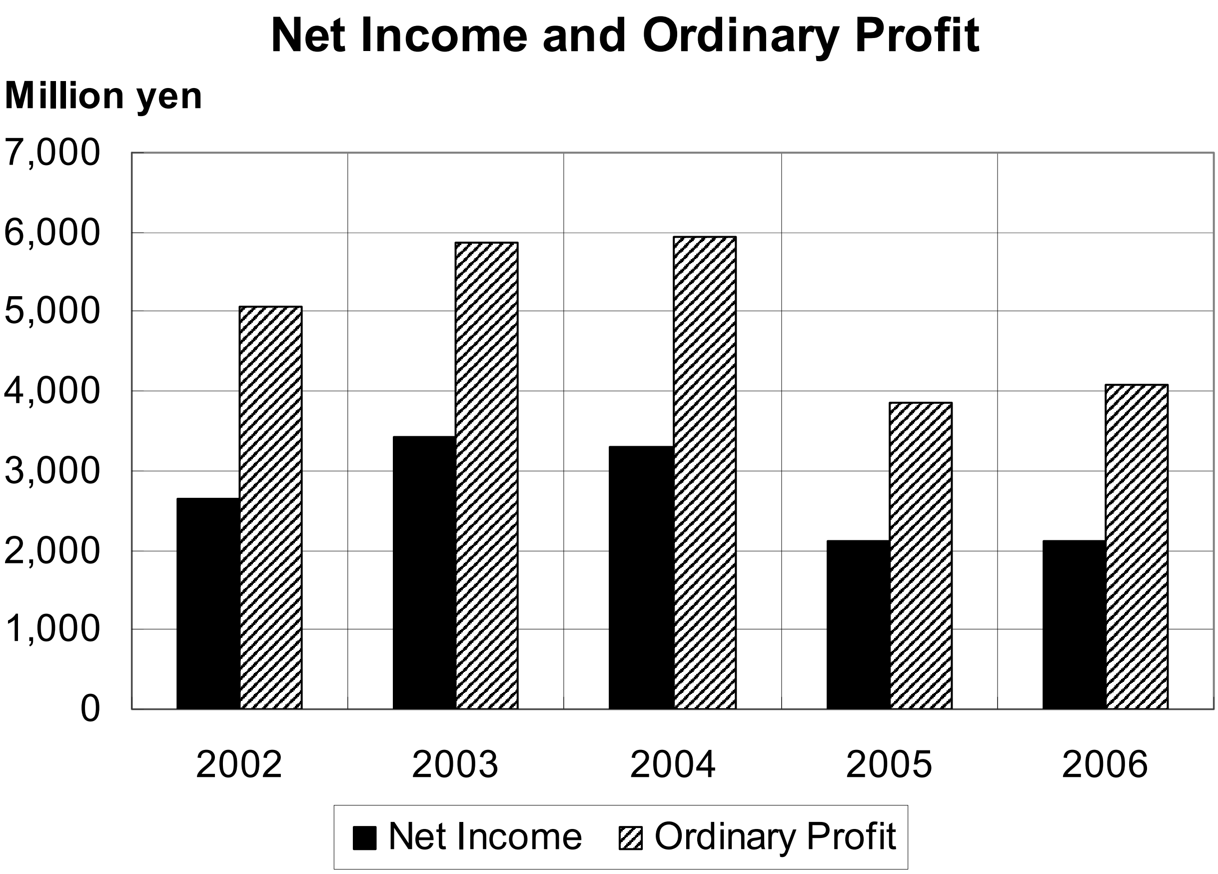
Name	Thousands of shares owned	% of shares outstanding
NEC Corporation	7,410	51.00
Japan Trustee Services Bank, Ltd. (Trust Account)	708	4.88
Master Trust Bank of Japan, Ltd. (Trust Account)	516	3.55
Employees' stockholding association	266	1.84
State Street Bank and Trust Client Omnibus Account OM02	200	1.38
Goldman Sachs International	165	1.14
Japan Securities Finance Co., Ltd.	135	0.93
Trust & Custody Services Bank, Ltd. (Annuity Trust Account)	108	0.75
Citibank London SA Stichting Shell Pensioenfonds	94	0.65
Mitsubishi UFJ Trust and Banking Corporation	93	0.64
	9,698	66.75

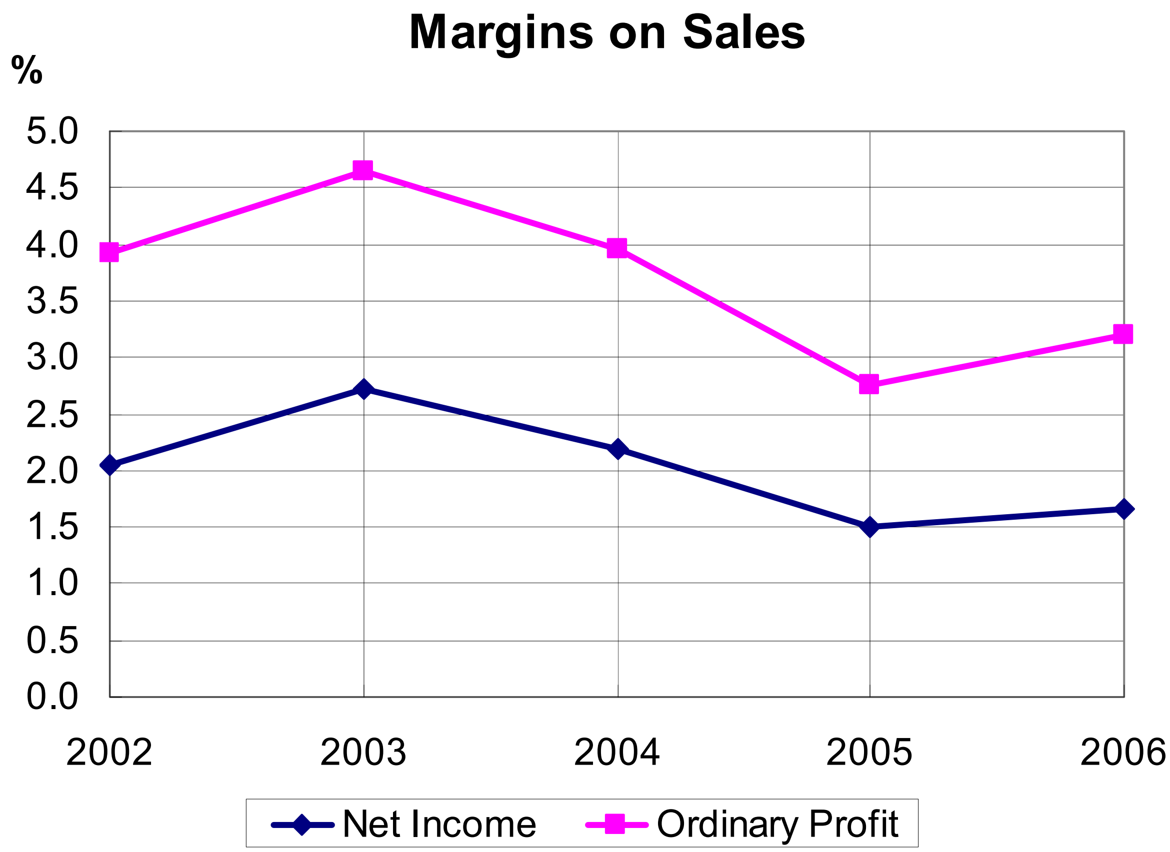
Share information

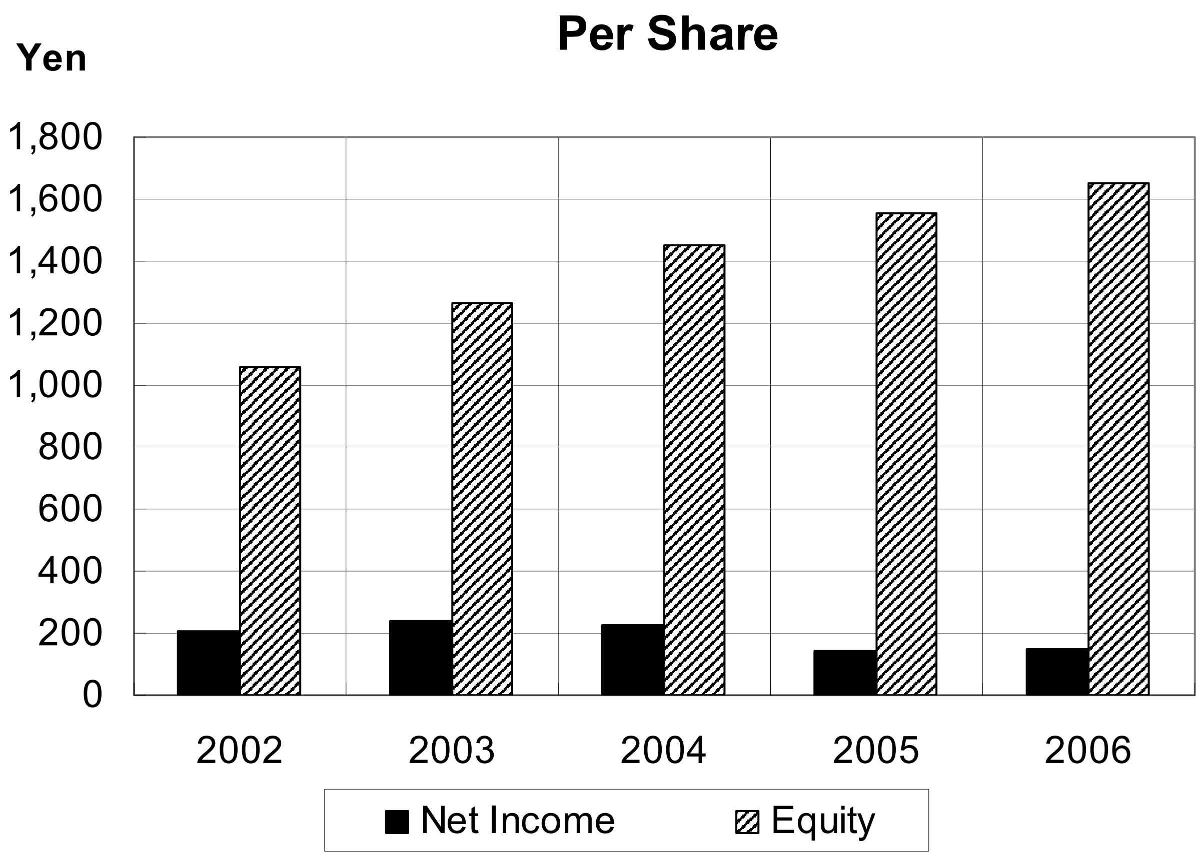
Fiscal year-end	March 31
Ex-rights date	March 31
Ex-rights date for interim dividend	September 30
Annual general meeting of shareholders	June
Trading unit	100 shares
Types of share certificates	100, 1,000, 10,000 and 100,000 shares
Transfer agent	The Sumitomo Trust & Banking Co., Ltd. 4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Publication of record	Electronic means In the event of an accident or other unavoidable circumstance, notices will be published in *The Nihon Keizai Shimbun.*

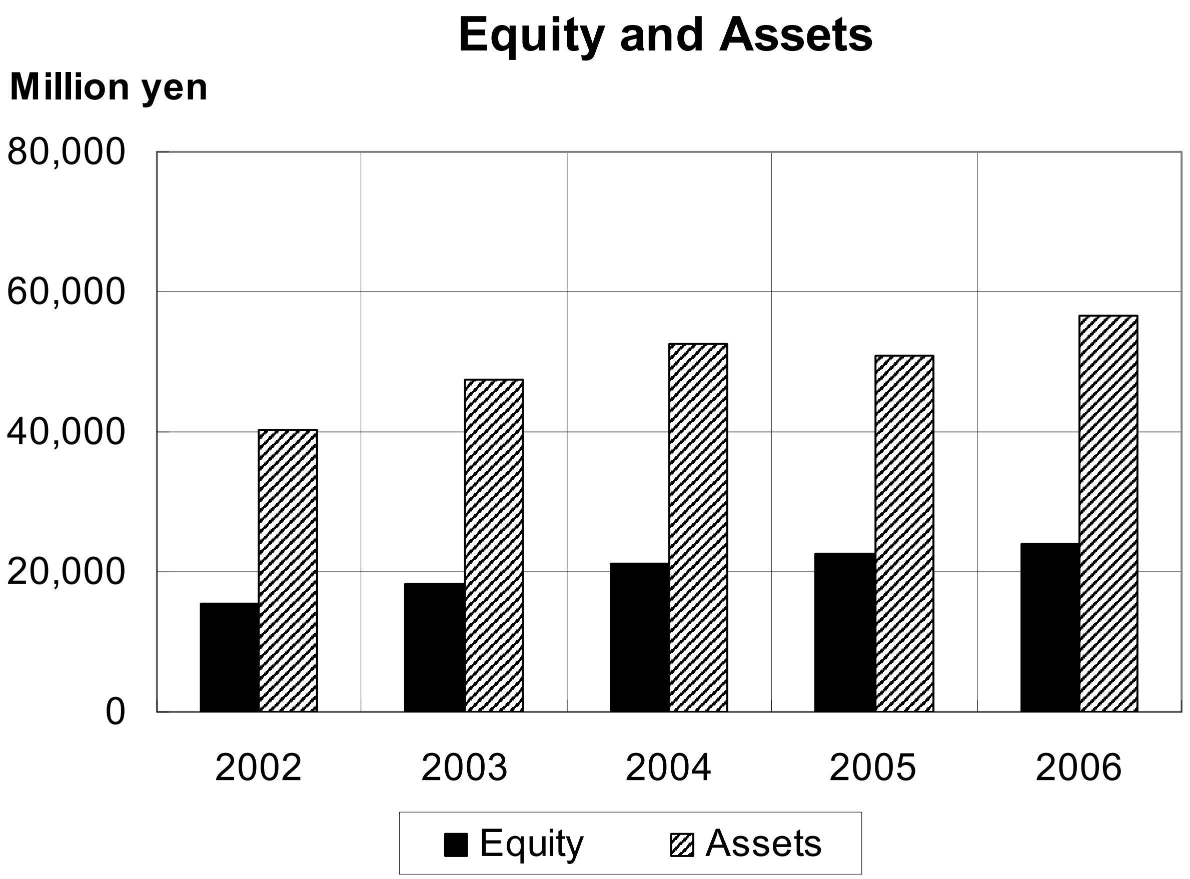
Performance in Graphs

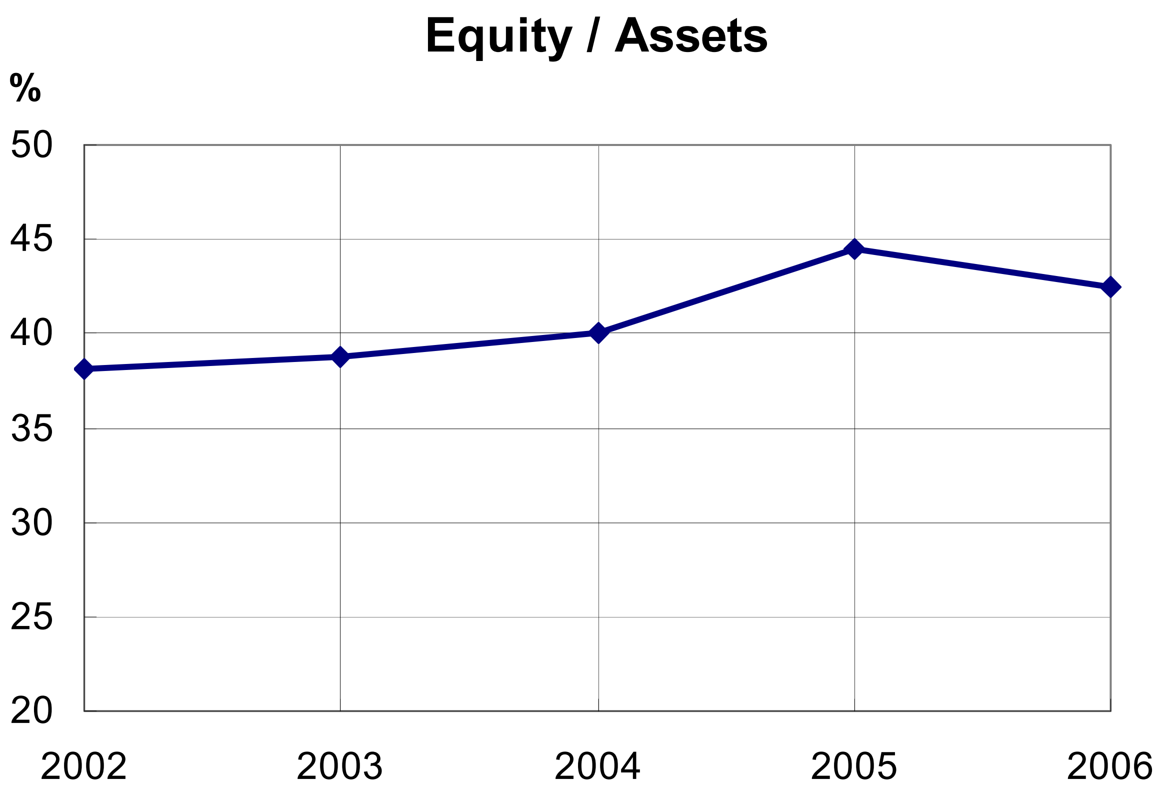


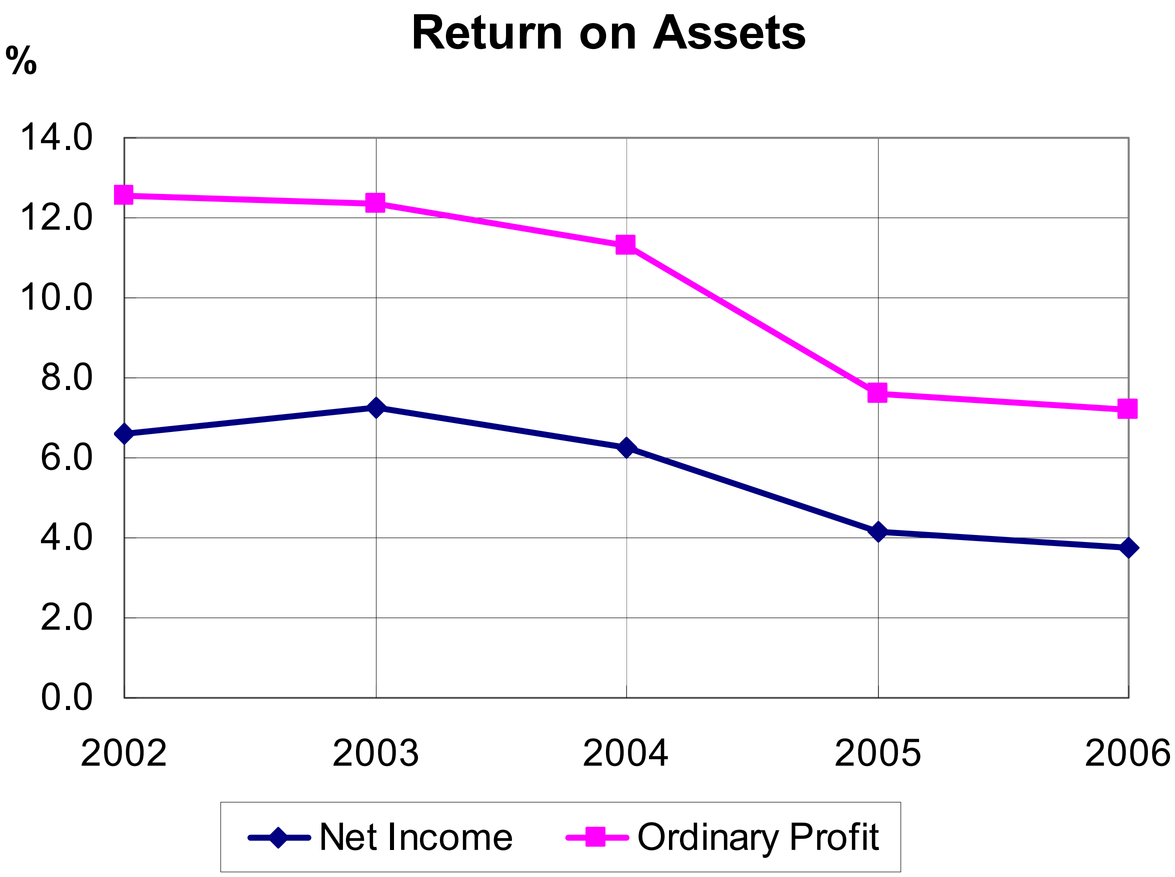


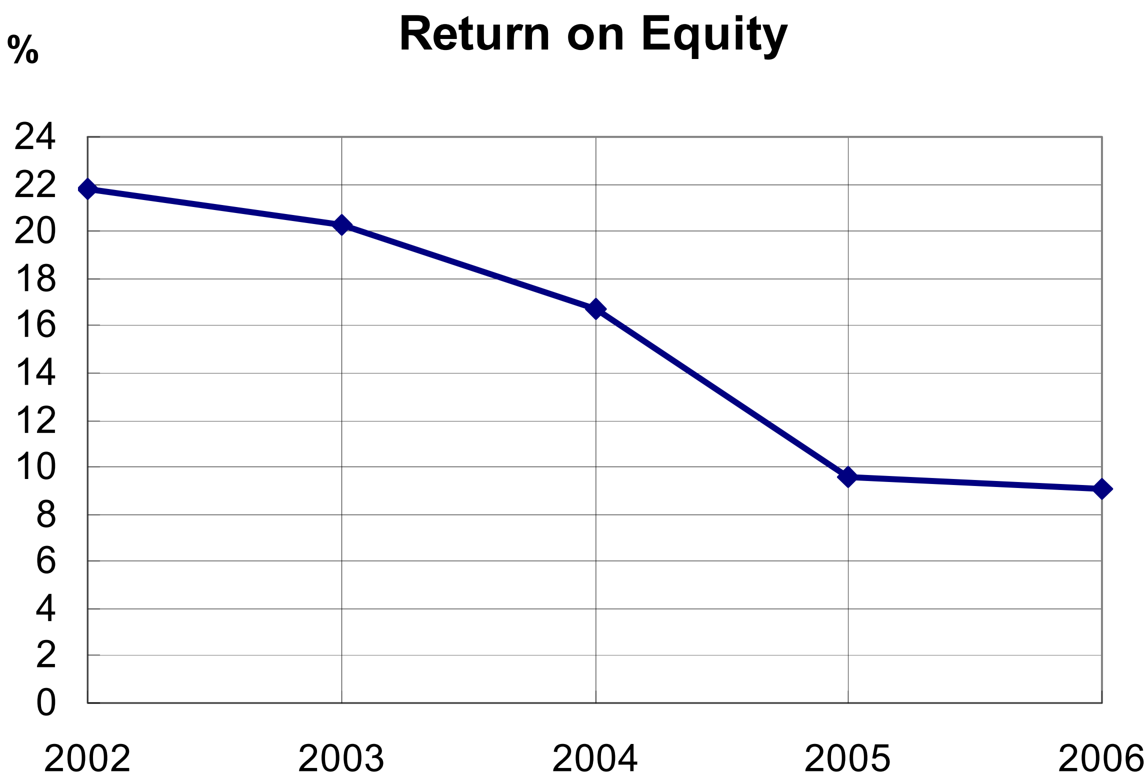

Margins on Sales
%
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
2002
2003
2004
2005
2006
Net Income
Ordinary Profit


Per Share
Yen
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
2002
2003
2004
2005
2006
Net Income
Equity


Equity and Assets
Million yen
80,000
60,000
40,000
20,000
0
2002
2003
2004
2005
2006
Equity
Assets


Equity / Assets
%
50
45
40
35
30
25
20
2002
2003
2004
2005
2006


Return on Assets
%
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
2002
2003
2004
2005
2006
Net Income
Ordinary Profit


Return on Equity
%
24
22
20
18
16
14
12
10
8
6
4
2
0
2002
2003
2004
2005
2006

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