有報

YUHO REPORT

Annual

Fiscal Year Ended	**March 31, 2007**
Traded	**TSE1**
Stock Code	**9430**

NEC Mobiling, Ltd.

YUHOREPORT

NEC Mobiling, Ltd.

Fiscal Year Ended	**March 31, 2007**
Traded	**TSE1**
Stock Code	**9430**

Table of Contents

COMPANY PROFILE **3**
Financial highlights 3
Common size statements 4
BUSINESS OVERVIEW **5**
Description of business 5
Group companies 6
History 7
Risk factors 8
Research and development 14
Analysis of financial condition and results of operations 15
Corporate governance 16
Directors 21
Employees 22
Union 22
CASH FLOWS **23**
Nonconsolidated statements of cash flows 23
Capital expenditures 24
Dividend policy 25
OPERATIONS **27**
Nonconsolidated statements of income 27
Nonconsolidated statements of changes in net assets 29
Cost of goods sold 30
Results of operations 33
Issues requiring action 35
Production and sales 36
Leases 38
CAPITAL STRUCTURE **39**
Nonconsolidated balance sheets 39
Trade credits 43
Market value of securities 44
Facilities 45
Securities 46
Fixed assets 47
Retirement benefits 47
Deferred taxes 48
Reserves 48
RELATED PARTIES **49**
ACCOUNTING POLICIES **50**
SHARE-RELATED INFORMATION **51**
PERFORMANCE IN GRAPHS **53**

Company Profile

Financial highlights

Years ended March 31; Thousands of yen	**2003**	**2004**	**2005**	**2006**	**2007**	**Change 2007/2003**
Net sales	126,271,324	149,939,949	140,195,117	127,589,653	130,252,775	103%
Ordinary income	5,857,615	5,944,108	3,854,991	4,078,280	5,640,886	96%
Net income	3,428,774	3,295,368	2,105,075	2,117,133	3,221,969	94%
Equity in earnings of affiliated companies	–	–	–	–	–	
Common stock	2,370,780	2,370,780	2,370,780	2,370,780	2,370,780	
Number of shares issued	14,529,400	14,529,400	14,529,400	14,529,400	14,529,400	
Net assets	18,357,171	21,071,693	22,557,846	23,994,252	26,573,413	145%
Total assets	47,396,215	52,685,054	50,714,715	56,464,736	61,832,011	130%
Net assets per share (Yen)	1,263.45	1,450.28	1,552.57	1,651.43	1,828.94	
Dividends per share (Yen)	35.00	35.00	45.00	45.00	47.50	
Net income per share (Yen)	235.98	226.81	144.88	145.71	221.76	
Net income per share, fully diluted (Yen)	–	–	–	–	–	
Dividend payout ratio (%)	14.83	15.43	31.06	30.88	21.42	
Net cash provided by operating activities	4,156,075	3,992,152	2,550,132	4,324,104	5,579,554	
Net cash used in investing activities	(574,691)	(2,323,543)	(1,028,870)	(1,941,274)	(1,304,201)	
Net cash used in financing activities	(432,038)	(579,133)	(613,496)	(658,908)	(652,486)	
Cash and cash equivalents at end of year	10,139,172	11,218,266	12,131,137	13,879,779	17,500,595	
Employees	1,290	1,500	1,494	1,169	1,121	87%
[Temporary employees]	[769]	[955]	[1,077]	[1,058]	[1,395]	181%

Common size statements

Years ended March 31; Percent	2006	2007
Balance sheets		
Assets	100.0	100.0
Current assets	86.6	87.3
Property and equipment	2.2	2.1
Intangible assets	2.3	2.6
Investments and other assets	8.9	8.0
Total fixed assets	13.4	12.7
Liabilities and net assets	100.0	100.0
Current liabilities	50.8	51.1
Long-term liabilities	6.7	5.9
Total liabilities	57.5	57.0
Shareholders' equity		
Common stock	4.2	-
Additional paid-in capital	4.8	-
Retained earnings	33.5	-
Unrealized gains (losses) on marketable securities	(0.0)	-
Total shareholders' equity	42.5	-
Net assets		
Common stock	-	3.8
Additional paid-in capital	-	4.4
Retained earnings	-	34.8
Treasury stock	-	(0.0)
Total shareholders' equity	-	43.0
Unrealized gains (losses) on marketable securities	-	(0.0)
Valuation and translation adjustments	-	(0.0)
Total net assets	-	43.0
Statements of income		
Net sales	100.0	100.0
Cost of sales	89.5	89.0
Gross profit	10.5	11.0
Selling, general and administrative expenses	7.2	6.7
Operating income	3.3	4.3
Non-operating income	0.1	0.1
Non-operating expenses	0.2	0.1
Ordinary income	3.2	4.3
Extraordinary gains	-	0.2
Extraordinary losses	0.1	0.2
Income before income taxes	3.1	4.3
Taxes	1.4	1.8
Net income	1.7	2.5

Business Overview

Description of business

The corporate Group is composed of the Company and NEC Corporation (NEC), its parent company.

The Company is engaged in two principal businesses, Mobile Sales and Mobile Integration & Support. Through the former, it sells mobile phones and provides mobile solutions based on mobile communications technology. Through the latter, it develops, manufactures and sells mobile communication systems and builds base stations, provides on-site adjustment services and repairs and maintains mobile phones and base stations.

Mobile Sales

In its role as a primary distributor for mobile network operators 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 stores directly or indirectly, 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.

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 network operators.

The Company also provides services for operators of private mobile radio systems. These include radio systems run by national government ministries and agencies, emergency radio communications systems operated by local governments and train radio systems for use by railway companies. In most cases, the businesses are conducted 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 network operators. The Company has established service centers in Sapporo, Sendai, Yokohama, Nagoya, Osaka, Hiroshima and Fukuoka to provide nationwide maintenance services and has assigned service personnel to two of its branches, one in Kanazawa (Hokuriku Branch) and another in Takamatsu (Shikoku Branch).

Group companies

Name	Operations	Common stock Millions of yen	Percent ownership
(Parent)			
NEC Corporation	Manufacture and sales of computers, communications equipment and software as well as provision of services related to such products	337,822	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 distributorship 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 for 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 related items as well as to handle subscriptions and starts to sell them.
	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	Signs an agreement to assume sales operations of NTT DoCoMo mobile phone business in the Kanto Koshinetsu region 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 for personal information protection.
2006	April	Transfers Mobile Software Development business to NEC Communication Systems, Ltd.

Risk factors

The following is a summary of the significant potential risks to the Company's operations. They include items that, while not directly related to operations, the Company believes disclosure merit considering investors' importance to their decision-making.

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

The discussion of risks has been divided into the following categories:

Relationship with NEC Group

Business-related risks

Relationship with NTT DoCoMo

Other risks

Relationship with NEC Group

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

- The bulk of orders received by the Mobile Integration & Support business comes from NEC.
- In the year to March 2006, 24.3% of the Company's total sales were to NEC; in the year to March 2007, the figure was 17.7%.

- Any change in the NEC Group's business policies or in the Company's standing within the NEC Group could consequently adversely affect the financial performance.
- In addition, the Company is licensed to use the "NEC" trademark. If the Company loses the right to use this trademark, or if the NEC brand declines in credibility or prestige, this could have an impact on the Company's financial performance.

(2) Other aspects of the relationship with NEC Group

- Of the Company's ten directors and corporate auditors, four were concurrently employees of NEC as of March 31, 2007.
- Of the Company's 1,121 employees as of March 31, 2007, a total of 77 were seconded from NEC Group.
- Employees on such assignments were, in every sense of the word, working full-time in the Company's operations. As the need arises, the Company may consider gradually hiring these employees directly. At the same time, however, as the Company's own personnel grow in competence and expertise, the need to bring in people from NEC or NEC Group companies will diminish. The Company intends to restrict use of these types of assigned employees to an absolute minimum hereafter.
- The declining acceptance of employees from NEC or NEC Group companies will not pose an obstacle to the smooth functioning of the Company's operations

Business-related risks

(1) Mobile Sales

- This business accounted for 73.0% and 80.4% of the Company's sales in the years to March 2006 and March 2007, respectively.
- In selling mobile phones, the Company operates in an environment of intense competition, in which new models are continually being introduced as technologies advance and in which product life cycles are short. Mobile phone prices tend to fall in this environment. On the other hand, distributors earn commissions and/or incentives on every subscription or sales they obtain from the mobile network operators. This commission income enables them to operate profitably, even when selling mobile phones at below the procurement price.

- Agreements covering such commissions and incentives are subject to change, however, depending on the operators' policies.
  Any major changes in the provisions of services and payment contracts entered into with mobile network operators, which include amounts, payment period, 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.
- The 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:	2006 Amount	2006 Percent	2007 Amount	2007 Percent
Commissions received	Net sales	30,558	31.7%	31,609	28.6%
Incentives received	Cost of sales (deduction)	65,978	68.3%	79,020	71.4%
Total		96,536	100.0%	110,629	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 network operators (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.*

- Under a program announced by the Ministry of Internal Affairs and Communications in September 2006, the Mobile Business Forum has been examining the industry's business model, specifically looking into the use of sales incentives (which make up one part of the incentives received by distributors) and other issues. If the Forum's work results in the elimination of sales incentives, it could lead to a sharp increase in the prices of mobile phones and to a lengthening of the replacement purchasing cycle, an outcome which could impact the Company's financial performance.
- Under distributorship agreements signed with mobile network operators, the Company is obligated to repay a part of the commissions it has received if subscribers cancel within a specified period.
- With the total subscriber base in Japan at 96.72 million as of March 31, 2007, the rate of growth in new subscribers is declining, resulting in increased competition among both mobile network operators and distributors. This

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 determined largely by the regional sales strategies of the mobile network operators. 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 operators.
- To expand the Mobile Sales business, the Company may invest in or acquire other companies or the mobile sales divisions of such companies. Depending on how the market evolves or on how the economy changes, the Company may not be able to generate the payoffs that it hoped to realize. Poor financial performance by the acquired companies or divisions may also prevent it from recovering its invested capital. Either outcome could affect both the Company's financial performance and its business plans.

(2) Mobile Integration & Support

- This business accounted for 19.4% and 19.6% of the Company's sales in the years to March 2006 and March 2007, respectively.
- The Company provides systems integration for mobile phone base stations. Its financial performance could consequently be affected by the capital investment trends of mobile network operators.

Relationship with NTT DoCoMo

(1) High dependence on the NTT DoCoMo brand

- As of March 31, 2007, the Company operated 166 stores in its Mobile Sales business, of which 144 were DoCoMo Shops.
- In the year ended March 2006, 97.5% of products procured for mobile phone sales were from NTT DoCoMo; in the year ended March 2007, the corresponding figure was 95.9%.
- The Company's financial performance could consequently be affected by procurement-related conditions set by NTT DoCoMo, by the market's reactions to NTT DoCoMo's new mobile phones and services, or by NTT DoCoMo's competitive position vis-à-vis other mobile network operators.

(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 they are subject to cancellation following advance notice at any time by NTT DoCoMo.
- In addition to this risk of contract cancellation, the distributorship agreements also permit NTT DoCoMo to cancel an agreement if there is a major change in the structure of the Company's shareholders, or if NTT DoCoMo determines that the Company is no longer able to provide a consistently high level of service.
- Cancellation of a distributorship agreement with NTT DoCoMo could undermine the Company's ability to remain in business.

(3) Shop development

- As described above in the section on risks related to Mobile Sales, the opening of DoCoMo shops is essentially determined in accordance with strategies adopted by NTT DoCoMo.
- Decisions on issues such as location, shop size and operating hours are reached through discussions with NTT DoCoMo. For strategic reasons, NTT DoCoMo may request that existing shops be relocated or expanded in size.
- Thus, the strategies and policies of the NTT DoCoMo with respect to shop openings could have an impact the Company's financial performance.

(4) MNP and the entry of new operators into the market

If MNP (mobile number portability) and competition from new mobile network operators result in a significant change in the market share of the NTT DoCoMo, it 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 is required to take environmental issues into consideration during construction.
- The Company is subject to the provisions of 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. It is also subject to the Ministry of Internal Affairs and Communication's Guidelines on the Protection of Personal Information in the Telecommunications Business and to ethical guidelines concerning distributorship operations adopted by the Telecommunications Carriers Association.

- By the very nature of their operations, distributors handle the private information of countless customers. Despite the best efforts of the Company to ensure the security of such information, leaks and other unauthorized use may occur. In this event, the Company could be liable for damages which could affect its financial performance.

(2) Foreign currency risks

The Company provides components for repair and maintenance of NEC mobile phones to other countries, principally in Asia. Sales and procurement in these operations are denominated in U.S. dollars and other currencies. Fluctuations in foreign exchange markets could, therefore, affect the Company's financial performance

(3) Human resources

- In the Mobile Sales business, new products and services are constantly appearing in the market. This means that employees must have a wide range of marketing-related skills and know-how that enable them to attract and keep new customers and to expand sales channels. The Company views the hiring and nurturing of such personnel to be an essential part of establishing the future foundations of its business.
- In addition to its regularly scheduled recruitment of new college graduates, the Company accordingly hires people with experience in the business on an ongoing basis throughout the year. It endeavors to sharpen the skills of newly hired personnel, moreover, through on-the-job training, educational courses and other post-hiring programs.
- If the Company is unable to hire and train the kind of employees it is seeking, however, or if it is unable to hire the number of people it requires to support business expansion, this could affect its financial performance through reductions in work efficiency.

Research and development

During the fiscal year ended March 2007, 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 297 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 on radio equipment, control devices and peripheral equipment for use in private mobile radio systems, particularly on ways of offering advanced services made possible by the digitalization of these systems.

(2) Mobile solutions

The Company conducted research on server applications in ASP business to utilize more reliable and higher quality ASP services using mobile phones.

Analysis of financial condition and results of operations

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

(1) Net sales

- Sales increased by 2.1%, or 2,663 million yen, to 130,253 million yen.
  - Mobile Sales: Sales increased by 12.5% to 104,762 million yen, reflecting success in capturing demand on mobile phones created by MNP and reflecting development of mobile phone sales channels.
  - Mobile Integration & Support: Sales increased by 2.7% to 25,491 million yen as a result of increased demand for base station-related development.
  - Note: The Mobile Software business, which was transferred to NEC Communication Systems, Ltd. on April 1, 2006, accounted for sales of 9,689 million yen in the year ended March 2006.

(2) Cost of sales and SG&A expenses

- Because of the increase in sales, sales costs increased by 1,744 million yen to 115,913 million yen. The cost-of-sales ratio improved by 0.5 points to 89.0%, however, reflecting mainly efficiencies gained through business process improvements and progress of productivity.
- SG&A expenses declined by 497 million yen to 8,735 million yen, primarily because of a decline in expenses related to the digitalization of private mobile radio systems.

(3) Non-operating income and expenses

- 154 million yen in non-operating income, primarily interest and dividend income
- 118 million yen in non-operating expenses, primarily losses on the disposal of fixed assets

(4) Extraordinary gains and losses

- 312 million yen in extraordinary gains resulting from the transfer of the Mobile Software business
- 62 million in extraordinary losses related to the transfer of the above business; 258 million yen in extraordinary losses resulting from the recognition of impairment losses on fixed assets

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

(1) Cash provided by operations increased by 1,256 million yen to 5,580 million yen, primarily because of an increase in income before income taxes.

(2) Cash used in investment activities decreased by 637 million yen to 1,304 million yen, primarily because the Company did not acquire investment securities in the year.

(3) Cash used in financing activities amounted to 653 million yen, primarily for the payment of 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 corporate social responsibility
- Developing effective management supervision

(2) Current policies regarding governance

- To protect shareholders' rights, the Company considers it necessary to create an environment that facilitates shareholders' participation in its General Meeting of Shareholders through such means as the following:
  - Holding the General Meeting of Shareholders at an early date
  - Distributing notifications of the General Meeting of Shareholders electronically and enabling shareholders to vote on resolutions electronically
  - Sending out notifications of the General Meeting of 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 oversight and supervisory functions in accordance with their respective roles provides 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 auditors.)
  - Besides conducting regular internal audits, the corporate auditors participate in the Board of Directors meetings, where they express opinions concerning the legality of the issues discussed.
- Advice from consulting attorneys who provide timely the Company with appropriate and 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, which has strengthened the management supervision function of the Board of Directors
- In May 2006, a decision by the Board of Directors on a basic policy regarding improvements to the Company's existing system of internal controls, which addressed the issue of controls from the following perspectives: compliance, information management and control, and risk management as well as operating efficiency and improved supervision by the corporate auditors.

- Risk management: In accordance with its basic regulations concerning risk management, the Company identifies individual risks and assigns a specific administrative division and deliberative committee to manage them.
  - To ensure ethical and legal compliance:
    a) The Company requires all directors and employees to adhere scrupulously to the NEC Mobiling Code of Behavior.
    b) To ensure that all corporate behavior is ethical and carried out in a spirit of respect for the law, the Company established a Business Ethics and Compliance Committee in October 2003. The Committee's role is to plan and deliberate basic policies regarding compliance and to promote compliance throughout the Company.
    c) The Company established the NEC Mobiling Help Line whistleblower system in March 2004 as a means of detecting potential risks at an early stage. The system allows employees to pass on information both inside and outside the Company.
- Internal audits; audits by corporate auditors; financial statements audits
  - Internal Audit Division
    a) Seven-person staff reporting directly to the President
    b) Performs periodic internal audits of operating procedures and general accounting activities, examining the appropriateness of the procedures used and employees' observance of the law and of internal regulations
  - Corporate auditors
    a) 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.
    b) Regular exchange of information by corporate auditors with the Internal Audit Division through operations reports, etc.
  - Financial statement audits
    a) Conducted by ShinNihon (Ernst & Young)

b) The auditing firm responsible for auditing the Company, the names of the CPAs engaged in the auditing, etc., are shown in the table below. Nine CPAs, fifteen junior accountants and six others also assisted in the most recent audit.

c) The financial auditor and the corporate auditors also meet regularly to discuss annual auditing plans, auditing policies, ongoing audits and the results of audits.

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

Information concerning years of auditing has been omitted because both CPAs have participated in the audits for seven consecutive years or less.

(2) Relationships between the Company and its outside directors and outside corporate auditors (personal, share-ownership-based, commercial, or other)

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

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

- 17 meetings of the Board of Directors
- Efforts led by the Compliance Promotion staff were made to disseminate and follow up on compliance throughout the organization and to improve risk management.
- With respect to education:
  - Compliance courses for all managers, taught by outside instructors; courses for employees on the protection of personal information and information security
  - Examinations testing employees' understanding of these issues

Compensation for Directors and Corporate Auditors

- Compensation paid to directors: 40 million yen (of which 1 million yen paid to outside directors)
- Compensation paid to corporate auditors: 26 million yen
- Professional fees for financial statement audits: 46 million yen, for audit certification of the financial reports, as stipulated under Article 2-1 of the Certified Public Accountants Law

Maximum number of directors

The Company has stipulated in its Articles of Incorporation that it will have no more than 10 directors.

Requirements for resolutions electing directors

The Company has stipulated in its Articles of Incorporation that resolutions regarding the election of directors shall require that shareholders representing at least one-third of all exercisable voting rights be present and that the resolution be adopted by a majority of the voting rights represented.

Decision-making bodies for dividends

With respect to Article 459-1 of the Corporation Law, which deals with dividends, the Company has stipulated in its Articles of Incorporation that, except when expressly provided under law, decisions on dividends will be made by resolution of the Board of Directors and not by resolution of the General Meeting of Shareholders. The aim of providing the Board of Directors with this authority is to enable the Company to carry out an effective and agile dividend policy.

Directors

Name	Title	Date joined Company	Previous or current employers/occupations	Date of birth	Term	Shares
Yoshitake Matsuo	President	Jun-02	NEC Corp.	2-Jul-45	1 year from the General Meeting of Shareholders (GMS) held June 22, 2007	4,300
Hideyuki Tsunoda	Member of the Board	Jun-07	NEC Corp. (present)	15-Aug-50	1 year from GMS held June 22, 2007	-
Yuichi Kimura	Member of the Board	Jun-06	NEC Corp. (present)	6-Mar-59	1 year from GMS held June 22, 2007	-
Takashi Hiyama	Senior Vice President and Member of the Board	Jun-02	NEC Corp.	17-Nov-47	1 year from GMS held June 22, 2007	5,400
Hiroki Kawamura	Associate Senior Vice President and Member of the Board	Jun-02	NEC Corp.	10-Nov-47	1 year from GMS held June 22, 2007	3,200
Hiromi Orikasa	Associate Senior Vice President and Member of the Board	Jun-04	NEC Corp.	1-Nov-48	1 year from GMS held June 22, 2007	500
Hitoshi Kawasaki	Corporate Auditor	Jun-04	NEC Corp.	15-Mar-47	4 years from GMS held June 18, 2004	-
Hidejiro Tsuchida	Corporate Auditor	Jun-04	NEC Corp.	4-Dec-47	4 years from GMS held June 18, 2004	1,200
Isamu Kawashima	Corporate Auditor	Jun-06	NEC Corp. (present)	20-Feb-59	4 years from GMS held June 23, 2006	-
Shigeyuki Fujii	Corporate Auditor	Jun-06	NEC Corp. (present)	12-Nov-59	4 years from GMS held June 23, 2006	-
						14,600

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	1,121
	[1,395]
Average age	39.7
Average years of service	13.5
Average annual salary (Yen)	6,773,045

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, 2007, the Company had 77 employees seconded from NEC Corp.

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	2006	2007
Cash flows from operating activities		
Income before income taxes	3,941,889	5,632,806
Depreciation	978,594	671,321
Decrease in allowance for doubtful accounts	(4,000)	(90,000)
Increase in accrued pension and severance costs	44,105	143,669
Interest and dividend income	(23,482)	(119,631)
Interest expenses	2,566	635
Foreign exchange (gain) loss	(24,720)	2,051
Loss on sales of property and equipment	2,760	232
Loss on disposal of property and equipment	77,531	52,192
Loss on disposal of intangible assets	11,126	50,177
Loss on devaluation of property and equipment	25,221	3,171
Loss on devaluation of intangible assets	139,407	-
Gain on transfer of business	-	(311,667)
Impairment loss on fixed assets	-	257,453
(Increase) decrease in notes and accounts receivable, trade	(2,107,537)	871,983
Decrease (increase) in inventories	706,290	(108,433)
Increase in accounts receivable, other	(1,102,431)	(2,028,231)
Increase in notes and accounts payable, trade	2,484,021	258,120
Increase in accrued expenses	327,404	2,605,215
Increase (decrease) in consumption tax payable	6,209	(170,002)
Increase (decrease) in deposits received	159,775	(155,877)
Other	(32,952)	263,505
Sub-total	5,611,776	7,828,689
Proceeds from interest and dividend income	23,482	119,631
Payments for interest expenses	(2,566)	(635)
Payments for income taxes and others	(1,308,588)	(2,368,131)
Net cash provided by operating activities	4,324,104	5,579,554
Cash flows from investing activities		
Purchases of property and equipment	(463,361)	(576,714)
Proceeds from sales of property and equipment	502	101
Purchases of intangible assets	(427,438)	(941,094)
Proceeds from transfer of business	-	225,811
Acquisition of sales operations for mobile phones	(36,024)	-
Purchases of investment securities	(1,005,000)	-
Other	(9,953)	(12,305)
Net cash used in investing activities	(1,941,274)	(1,304,201)

Years ended March 31; Thousands of yen	2006	2007
Cash flows from financing activities		
Dividends paid	(658,908)	(652,452)
Purchase of treasury stock	-	(34)
Net cash used in financing activities	(658,908)	(652,486)
Effect of exchange rate changes on cash and cash equivalents	24,720	(2,051)
Increase in cash and cash equivalents	1,748,642	3,620,816
Cash and cash equivalents at beginning of year	12,131,137	13,879,779
Cash and cash equivalents at end of year	13,879,779	17,500,595

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

Year ended March 31; Thousands of yen	2006	2007
Cash on hand and in banks	9,879,679	11,500,912
Marketable securities	-	999,132
Affiliated company deposits	4,000,100	5,000,551
Cash and cash equivalents at end of year	13,879,779	17,500,595

Capital expenditures

The Company expended 1,553 million yen on capital investments during the year, mainly for information systems designed to improve management efficiency and for store renovations and relocations in the Mobile Sales business. These expenditures broke down as follows:

- Buildings and structures: 426 million yen
- Tools, furniture and fixtures: 203 million yen
- Software: 912 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, returns on investment, etc. For the year to March 2008, the Company is planning to spend 1.9 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	-	2007/4	2008/3
Maintenance facilities, etc.	350	-	2007/4	2008/3
Equipment and software for use in mobile solutions business	200	-	2007/4	2008/3
Head office and Kanto Koshinetsu region, etc.				
Opening, relocation and renovation of stores, etc.	1,300	-	2007/4	2008/3
	1,900	-	-	-

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.

The Company's basic policy is to pay dividends twice a year in the form of an interim dividend and a year-end dividend.

The decision-making body with respect to dividends is the Board of Directors. The Company has stipulated in its Articles of Incorporation that "in accordance with Article 459-1 of the Corporation Law, the Company shall be authorized to pay dividends based on resolutions adopted by the Board of Directors and not by the General Meeting of Shareholders." The Company has also stipulated in its Articles of Incorporation that the dates of record for dividends shall be March 31 of each year for the year-end dividend and September 30 of each year for the interim dividend.

Based on the foregoing policy, the Company has determined that the dividend for the fiscal year under review shall be 47.5 yen per share (of which 22.5 yen was paid as an interim dividend).

With respect to the use of retained earnings, the Company's policy will be to invest in the following areas: expansion into new arenas that promise to deliver mobility value to customers, including projects related to the FMC market, mobile solutions businesses, etc.; developing mobile phone sales channels; quality control; and personnel training and development.

Date of decision	Dividend payout	Dividend per share
	(Millions of yen)	(Yen)
October 25, 2006 Resolution of Board of Directors	327	22.50
May 14, 2007 Resolution of Board of Directors	363	25.00

Operations

Nonconsolidated statements of income

Years ended March 31; Thousands of yen	**2006**	**2007**
Net sales		
Mobile Sales	93,090,272	104,761,289
Mobile Integration & Support	24,810,468	25,491,486
Mobile Software	9,688,913	-
	127,589,653	130,252,775
Cost of sales		
Mobile Sales	85,111,118	96,626,114
Mobile Integration & Support	19,697,313	19,286,515
Mobile Software	9,360,094	-
	114,168,525	115,912,629
Gross profit	13,421,128	14,340,146
Selling, general and administrative expenses	9,231,960	8,734,765
Operating income	4,189,168	5,605,381
Non-operating income		
Interest income	8,815	32,372
Dividend income	14,667	87,259
Commissions received	7,231	5,877
Foreign exchange gain	45,085	-
Miscellaneous income	5,874	28,215
	81,672	153,723
Non-operating expenses		
Interest expenses	2,566	635
Loss on disposal of fixed assets	88,657	102,369
Loss on devaluation of fixed assets	94,237	3,171
Miscellaneous expenses	7,100	12,043
	192,560	118,218
Ordinary income	4,078,280	5,640,886
Extraordinary gains		
Gain on transfer of business	-	311,667
	-	311,667

Years ended March 31; Thousands of yen	2006	2007
Extraordinary losses		
Expenses related to transfer of business	136,391	62,294
Impairment loss on fixed assets	-	257,453
	136,391	319,747
Income before income taxes	3,941,889	5,632,806
Corporate, inhabitant and enterprise taxes	2,114,884	2,597,000
Deferred income taxes	(290,128)	(186,163)
	1,824,756	2,410,837
Net income	2,117,133	3,221,969
Unappropriated retained earnings at beginning of year	671,224	-
Interim dividends	326,912	-
Unappropriated retained earnings at end of year	2,461,445	-

Nonconsolidated statements of changes in net assets

Thousands of yen; Mar. 31, 2007	Shareholders' equity: Common stock	Additional paid-in capital	Retained earnings: Legal reserves	Other retained earnings: General reserves	Other retained earnings: Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity
Balance as of Mar. 31, 2006	2,370,780	2,706,780	21,420	16,460,000	2,461,445	18,942,865	-	24,020,425
Changes during the year								
Provision for general reserves*	-	-	-	1,400,000	(1,400,000)	-	-	-
Dividends*	-	-	-	-	(326,912)	(326,912)	-	(326,912)
Dividends	-	-	-	-	(326,912)	(326,912)	-	(326,912)
Net income	-	-	-	-	3,221,969	3,221,969	-	3,221,969
Purchase of treasury stock	-	-	-	-	-	-	(34)	(34)
Net changes of items other than shareholders' equity	-	-	-	-	-	-	-	-
Total changes during the year	-	-	-	1,400,000	1,168,146	2,568,146	(34)	2,568,112
Balance as of Mar. 31, 2007	2,370,780	2,706,780	21,420	17,860,000	3,629,591	21,511,011	(34)	26,588,537

Thousands of yen; Mar. 31, 2007	Valuation and translation adjustments: Unrealized gains (losses) on marketable securities	Total net assets
Balance as of Mar. 31, 2006	(26,173)	23,994,252
Changes during the year		
Provision for general reserves*	-	-
Dividends*	-	(326,912)
Dividends	-	(326,912)
Net income	-	3,221,969
Purchase of treasury stock	-	(34)
Net changes of items other than shareholders' equity	11,049	11,049
Total changes during the year	11,049	2,579,161
Balance as of Mar. 31, 2007	(15,124)	26,573,413

*(*) Earnings appropriated at the Company's Ordinary General Meeting of Shareholders held in June 2006.*

Nonconsolidated appropriation of retained earnings

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

Cost of goods sold

Years ended March 31; Thousands of yen	2006	2007
Cost of sales - Mobile Sales		
Mobile terminal sales		
Merchandise at beginning of year	3,181,226	3,607,460
Purchases of merchandise	84,461,691	100,204,308
Incentives received	(65,978,481)	(79,019,658)
	21,664,436	24,792,110
Merchandise at end of year	3,607,460	4,148,931
Transfers to other accounts		
Selling, general and administrative expenses	39,687	26,830
Store operation expenses	138,560	220,379
Other	7,639	3,534
	185,886	250,743
	17,871,090	20,392,436
Sales commissions paid	56,248,648	65,256,086
Cost of sales related to mobile terminal equipment	74,119,738	85,648,522
Store operation expenses	9,736,415	9,807,604
Cost of mobile terminal sales	83,856,153	95,456,126
(Breakdown of store operation expenses)		
Wages and salaries	3,592,456	3,769,575
Overhead expenses		
Subcontracting expenses	4,330,418	4,933,287
Rental expenses	1,614,558	1,674,238
Transportation costs	419,335	318,745
Sales promotion expenses	529,996	865,653
Other	2,007,696	1,516,452
Reimbursement of operating expenses	(2,758,044)	(3,270,346)
	6,143,959	6,038,029
	9,736,415	9,807,604

Years ended March 31; Thousands of yen	2006	2007
Other sales (non-mobile terminal sales)		
Raw materials at beginning of year	12,550	12,180
Purchases of raw materials	664,166	594,283
	676,716	606,463
Raw materials at end of year	12,180	33
Cost of raw materials	664,536	606,430
Cost of labor	112,236	-
Manufacturing overhead		
Subcontracting expenses	231,488	205,482
Taxes and public dues	6,185	3,839
Travel expenses	3,644	3,016
Supplies	22,630	20,482
Rental expenses	7,854	7,306
Commissions paid	48,126	61,408
Other	75,091	33,221
	395,018	334,754
Manufacturing costs	1,171,790	941,184
Semifinished components and work in process at beginning of year	23,935	41,664
	1,195,725	982,848
Semifinished components and work in process at end of year	41,664	6,590
Transfers to other accounts		
Selling, general and administrative expenses	97,335	24,746
Research and development expenses	44,733	59,286
	142,068	84,032
Transfers from other divisions	-	30,859
Production costs	1,011,993	923,085
Merchandise at beginning of year	229,657	44,871
Finished products at beginning of year	66,170	15,501
Purchases of merchandise	119,765	307,843
	1,427,585	1,291,300
Merchandise at end of year	44,871	96,679
Finished products at end of year	15,501	1,637
Transfers to other accounts		
Selling, general and administrative expenses	112,046	22,595
Other	195	401
	112,241	22,996
	1,254,972	1,169,988
Additions to cost of merchandise based on revaluations in accordance with lower-of-cost-or-market method	37	-
Deductions from cost of raw materials based on revaluations in accordance with lower-of-cost-or-market method	(44)	-
Cost of other sales (non-mobile terminal sales)	1,254,965	1,169,988
Cost of sales - Mobile Sales	85,111,118	96,626,114

Years ended March 31; Thousands of yen	2006	2007
Cost of sales - Mobile Integration & Support		
Raw materials at beginning of year	743,924	624,311
Purchases of raw materials	9,550,177	7,819,259
	10,294,101	8,443,570
Raw materials at end of year	624,311	260,323
Cost of raw materials	9,669,790	8,183,247
Cost of labor	3,035,375	2,619,941
Manufacturing overhead		
Outsourcing expenses	5,511,743	6,205,670
Rental expenses	701,817	671,888
Subcontracting expenses	835,892	1,137,041
Travel expenses	238,150	240,672
Other	1,228,318	1,157,932
	8,515,920	9,413,203
Manufacturing costs	21,221,085	20,216,391
Semifinished components and work in process at beginning of year	572,109	447,067
	21,793,194	20,663,458
Semifinished components and work in process at end of year	447,067	417,800
Transfers to other accounts		
Selling, general and administrative expenses	1,081,663	568,037
Research and development expenses	442,000	237,426
Other	145,088	154,916
	1,668,751	960,379
Production costs	19,677,376	19,285,279
Merchandise at beginning of year	-	1,030
Purchases of merchandise	30,103	1,591
	19,707,479	19,287,900
Merchandise at end of year	1,030	451
	19,706,449	19,287,449
Additions to cost of merchandise based on revaluations in accordance with lower-of-cost-or-market method	6	103
Deductions from cost of raw materials based on revaluations in accordance with lower-of-cost-or-market method	(9,142)	(1,037)
Cost of sales - Mobile Integration & Support	19,697,313	19,286,515

Years ended March 31; Thousands of yen	2006	2007
Cost of sales - Mobile Software		
Purchases of raw materials	16,284	-
	16,284	-
Cost of raw materials	16,284	-
Cost of labor	1,923,844	-
Manufacturing overhead		
Outsourcing expenses	5,265,557	-
Rental expenses	698,739	-
Subcontracting expenses	350,238	-
Communications expenses	62,966	-
Supplies	76,474	-
Other	316,493	-
	6,770,467	-
Manufacturing costs	8,710,595	-
Semifinished components and work in process at beginning of year	701,766	30,859
	9,412,361	30,859
Semifinished components and work in process at end of year	30,859	-
Transfers to other accounts		
Fixed assets	21,408	-
	21,408	-
Transfers to other divisions	-	30,859
Cost of sales - Mobile Software	9,360,094	-

Results of operations

Fiscal year ended March 31, 2007

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

(1) Continuation of moderate economic growth in Japan, driven by:

- Robust corporate profitability
- Rising capital investments

(2) The introduction of MNP (mobile number portability) in October 2006 and high-function phones nudge overall demand upward:

- Net increase of 4.93 million in mobile phone subscribers during the year, 2.7% more than in the previous year
- 5.4% increase in the cumulative subscription base to 96.72 million subscribers at year-end

- 44.7% increase in mobile phones that support 3G services to 69.91 million (accounting for 72% of total subscribers)

(3) In the NTT DoCoMo mobile phone market, a 51.4% increase in FOMA subscriptions to 35.53 million, bringing the total to 68% of NTT DoCoMo subscribers

Strategic responses by the Company

(1) Moved aggressively to meet the needs of consumers who increasingly want FOMA and other high-functional phones.

(2) Invested in expansion of sales channels and in improving the efficiency of business operations.

(3) Shed its Mobile Software business (taken over by NEC Communication Systems Ltd.) in April 2006, an action aimed at improving medium-to-long term profitability by enabling the Company to concentrate on mobile phone sales, the repairs and solutions business.

Financial highlights

(1) Sales: Increased by 2.1% to 130,253 million yen, because of:

- Growth in the Mobile Sales business
- Increase in system integration related business

(2) Profits: Benefited from higher sales and efficiencies gained through business process improvements:

- Operating income: up by 33.8% to 5,605 million yen
- Ordinary profit: up by 38.3% to 5,641 million yen
- Net income: up by 52.2% to 3,222 million yen

Segment information

(1) Mobile Sales: Sales increased by 12.5% to 104,762 million yen; operating income increased by 3.3% to 2,230 million yen.

- With the commencement of one-segment TV broadcasting and the start of mobile number portability, an expanded lineup of high-function and advanced phones was introduced to the market. These phones, which offer capabilities such as music playing, electronic money storage, and reception of one-segment TV broadcasting, stimulated increased demand, primarily among consumers seeking to replace their current phones.
- To respond to this stronger demand, the Company:
  - Expanded mobile phone sales channels for FOMA mobile phones.

- Improved retail shop productivity.
- Developed projects that embody "mobility value" for its customers.

- Due to a robust program of sales-related investments aimed at expanding sales channels, opening new shops, and renovating existing shops, and to efforts to improve operating efficiency through business process improvements, operating income grew by 3.3%.

(2) Mobile Integration & Support: Sales increased by 2.7% to 25,491 million yen; operating income increased by 76.5% to 3,375 million yen.

- Despite a decline in the number of mobile phones repaired, demand from mobile network operators to improve the quality of mobile phone calls led to increased demand for system integration.
- Profitability benefited from higher sales, from efficiencies brought on by business process improvements, and from further advances in productivity.

Issues requiring action

(1) Assessment of the environment—transformation of the market, as a result of:

- Intensifying competition among mobile network operators—because of the entrance of new operators into market
- The emergence of Fixed-Mobile Convergence ("FMC") services
- Market saturation, which reflects the diminishing growth of the subscriber base and requires operators to offer more to attract and keep subscribers

(2) Assessment of environment—opportunities seen by the Company:

- Outlook for steadily growing sales of mobile phones through shops—to customers who are seeking more advanced models
- Expanding the mobile phone repair business steadily over time
- Developing markets related to FMC services, which the Company believes have large growth potential
- Developing businesses that embody mobility value for its customers in a growing mobile Internet society

(3) Issues: to achieve these aims, the Company must be able to do the following:

- Understand what constitutes mobility value in the customer's eyes, and become increasingly able to propose optimum mobile environments when consulting with these customers.
- Be able to unearth new business opportunities related to FMC.
- Develop an incubation capability, moreover, that will nurture these new businesses.

(4) Effectively dealing with these issues will require that the Company:

- Develop a mechanism that enables it to effectively utilize the resources at its disposal, particularly the sales-related resources it has deployed across Japan.
- Focus resources on developing human talent.
- Strengthen measures to improve management, particularly by continuing to pursue greater efficiencies through business process improvements.

Production and sales

The Company's Mobile Software business was transferred to NEC Communication Systems, Ltd. on April 1, 2006. This transfer had an impact on the year-on-year comparisons in the following tables (except the table on procurement), specifically in the year-on-year comparisons of "totals."

Production

Thousands of yen	2007	
	Amount	Year-on-year comparison (%)
Mobile Sales	1,003,391	99.6
Mobile Integration & Support	25,489,851	102.8
	26,493,242	74.7

Procurement

Thousands of yen	2007	
	Amount	Year-on-year comparison (%)
Mobile Sales	100,512,151	118.8
Mobile Integration & Support	1,591	5.3
	100,513,742	118.8

Orders

Thousands of yen	2007			
	Orders		Orders outstanding	
	Amount	Year-on-year comparison (%)	Amount	Year-on-year comparison (%)
Mobile Sales	1,213,184	118.3	117,396	173.8
Mobile Integration & Support	25,938,426	104.5	1,459,372	144.1
	27,151,610	76.6	1,576,768	139.3

Net sales

Thousands of yen	2007	
	Amount	Year-on-year comparison (%)
Mobile Sales	104,761,289	112.5
Mobile Integration & Support	25,491,486	102.7
	130,252,775	102.1

Principal customers of net sales

Thousands of yen	2006		2007	
	Amount	% of net sales	Amount	% of net sales
NEC	30,964,570	24.3%	23,004,820	17.7%
NTT DoCoMo, Inc. (including eight regional companies)	30,352,611	23.8%	32,202,489	24.7%

Main items involved in selling, general and administrative expenses

Years ended March 31; Thousands of yen	2006	2007
Salaries and allowances	2,379,608	2,439,603
Employees' bonuses	751,145	806,377
Pension and severance costs	214,786	225,978
Welfare expense	436,994	441,189
Rental expenses	663,380	778,566
Depreciation expenses	556,342	400,587
Subcontracting expenses	879,290	955,980
Research and development expenses	486,733	296,712
Repair and maintenance expenses	1,169,284	789,357

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	1,922	Rent
Tools, furniture and fixtures	283	Lease

Pro forma information on leased property is as follows:

Thousands of yen	**2006**	**2007**
Machinery and equipment		
Acquisition cost	10,392	-
Accumulated depreciation	8,227	-
Net leased property	2,165	-
Vehicles and delivery equipment		
Acquisition cost	8,096	5,290
Accumulated depreciation	5,377	4,144
Net leased property	2,719	1,146
Tools, furniture and fixtures		
Acquisition cost	725,504	862,371
Accumulated depreciation	420,204	398,288
Net leased property	305,300	464,083
Total		
Acquisition cost	743,992	867,661
Accumulated depreciation	433,808	402,432
Net leased property	310,184	465,229
Future minimum lease payments, including interest portion		
Due within one year	157,488	190,029
Due after one year	157,705	280,587
	315,193	470,616
Lease payments; reversal of liability for leased asset impairment; amount equivalent to depreciation; and impairment losses		
Lease payments	219,257	209,452
Pro forma depreciation expenses (assuming declining-balance method)	212,110	201,550
Pro forma interest expenses	6,691	8,704

(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	2006	2007
Current assets		
Cash on hand and in banks	9,879,679	11,500,912
Notes receivable, trade	14,020	1,470
Accounts receivable, trade	20,404,056	19,544,623
Marketable securities	-	999,132
Merchandise	3,653,300	4,245,896
Finished products	15,501	1,636
Semifinished components	138,111	2,328
Raw materials	617,206	242,109
Work in process	381,479	422,061
Advances paid	39	39
Prepaid expenses	228,391	171,152
Deferred tax assets	971,469	1,181,000
Accounts receivable, other	8,198,971	10,227,202
Affiliated company deposits	4,000,100	5,000,551
Other	462,889	464,784
Allowance for doubtful accounts	(91,000)	(4,000)
	48,874,211	54,000,895
Fixed assets		
Property and equipment		
Buildings	1,179,973	1,333,144
Accumulated depreciation	(548,977)	(555,695)
	630,996	777,449
Structures	239,333	291,844
Accumulated depreciation	(89,830)	(115,406)
	149,503	176,438
Machinery and equipment	141,565	99,978
Accumulated depreciation	(103,893)	(99,978)
	37,672	0
Tools, furniture and fixtures	1,498,262	1,400,614
Accumulated depreciation	(1,087,031)	(1,074,896)
	411,231	325,718
Construction in progress	14,675	24,180
	1,244,077	1,303,785

Years ended March 31; Thousands of yen	2006	2007
Intangible assets		
Goodwill	369,192	191,542
Trademarks	9,292	7,661
Software	936,857	1,380,652
Other	7,878	7,752
	1,323,219	1,587,607
Investments and other assets		
Investment securities	968,707	987,321
Investments in affiliated companies	163,607	163,607
Long-term loans to employees	355	964
Receivables from companies in bankruptcy and reorganization	42,880	39,305
Long-term prepaid expenses	14,891	18,997
Deferred tax assets	1,316,287	1,285,354
Lease deposits	2,310,840	2,178,641
Other	245,662	302,535
Allowance for doubtful accounts	(40,000)	(37,000)
	5,023,229	4,939,724
Total fixed assets	7,590,525	7,831,116
Total assets	56,464,736	61,832,011

Liabilities and net assets

Years ended March 31; Thousands of yen	2006	2007
Current liabilities		
Notes payable, trade	402,002	436,720
Accounts payable, trade	15,358,954	15,631,880
Accounts payable, other	661,495	498,528
Accrued expenses	9,881,605	12,486,820
Accrued corporate taxes	1,407,827	1,636,747
Advances received	9,577	84,235
Deposits received	983,524	827,646
	28,704,984	31,602,576
Long-term liabilities		
Accrued pension and severance costs	3,540,965	3,434,136
Deposits received for guarantees	224,535	221,886
	3,765,500	3,656,022
Total liabilities	32,470,484	35,258,598
Shareholders' equity		
Common stock	2,370,780	-
Additional paid-in capital		
Additional paid-in capital	2,706,780	-
	2,706,780	-
Retained earnings		
Legal reserves	21,420	-
Voluntary reserves		
General reserves	16,460,000	-
Unappropriated retained earnings	2,461,445	-
	18,942,865	-
Unrealized gains (losses) on marketable securities	(26,173)	-
Total shareholders' equity	23,994,252	-
Total liabilities and shareholders' equity	56,464,736	-

Years ended March 31; Thousands of yen	2006	2007
Net assets		
Shareholders' equity		
Common stock	-	2,370,780
Additional paid-in capital		
Additional paid-in capital	-	2,706,780
	-	2,706,780
Retained earnings		
Legal reserves	-	21,420
Other retained earnings		
General reserves	-	17,860,000
Retained earnings brought forward	-	3,629,591
	-	21,511,011
Treasury stock	-	(34)
Total shareholders' equity	-	26,588,537
Valuation and translation adjustments		
Unrealized gains (losses) on marketable securities	-	(15,124)
	-	(15,124)
Total net assets	-	26,573,413
Total liabilities and net assets	-	61,832,011

Trade credits

Notes receivable, trade

Thousands of yen	2007
Tai-Jidosha Co., Ltd.	1,470
	1,470

Accounts receivable, trade

Thousands of yen	2007
NEC	6,019,237
NTT DoCoMo, Inc.	2,061,100
Konan Hanbai Co., Ltd.	776,381
Business Service Co., Ltd.	771,636
NTT DoCoMo Kansai, Inc.	576,867
Other	9,339,402
	19,544,623

Turnover of accounts receivable, trade

Thousands of yen	2007
Beginning balance	20,404,056
Increase	131,891,500
Collected	132,750,933
Ending balance	19,544,623
Turnover	87.2%
Average days for collection	55.3

Notes payable, trade

Thousands of yen	2007
HIC Co., Ltd.	87,019
Kei Denko Co., Ltd.	73,955
Tokyo Denpa Co., Ltd.	32,506
Itoki Co., Ltd.	23,682
Toppan Printing Co., Ltd.	19,638
Other	199,920
	436,720

Accounts payable, trade

Thousands of yen	2007
NTT DoCoMo, Inc.	5,418,073
NTT DoCoMo Kansai, Inc.	2,246,350
NEC Leasing, Ltd.	1,648,213
NTT DoCoMo Tohoku, Inc.	1,115,486
NTT DoCoMo Kyushu, Inc.	1,009,458
Other	4,194,300
	15,631,880

Market value of securities

Other quoted securities

	2006			2007		
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	7,800	8,700	900	7,800	10,900	3,100
Bonds						
JGB, local government bonds, etc.	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Other	-	-	-	-	-	-
Other	-	-	-	-	-	-
	7,800	8,700	900	7,800	10,900	3,100
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	976,421	(28,579)
	1,005,000	960,007	(44,993)	1,005,000	976,421	(28,579)
	1,012,800	968,707	(44,093)	1,012,800	987,321	(25,479)

Major investment securities without market prices

Thousands of yen	2006	2007
Other securities		
Commercial paper	-	999,132
	-	999,132

Scheduled redemptions of bonds with maturity dates and bonds being held to maturity (among holdings in the "other securities" account)

Thousands of yen	Up to 1 year	More than 1 and up to 5 years	More than 5 and up to 10 years	More than 10 years
2007				
Bonds				
Commercial paper	999,132	-	-	-
	999,132	-	-	-

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	126,415	0	37,894	1,374,082	1,538,391	556
Hokkaido region Hokkaido branch and 7 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment	17,451	-	2,930	-	20,381	13
Tohoku region Tohoku branch and 6 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment Software	44,924	-	8,521	67	53,512	34
Kanto Koshinetsu region Tokyo branch and 68 stores						
Equipment appurtenant to buildings Store furnishings Software	465,252	-	158,668	1,559	625,479	265
Tokai region Chubu branch and 9 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment	68,820	-	20,793	-	89,613	36
Hokuriku region Hokuriku branch and 2 stores						
Equipment appurtenant to buildings Store furnishings Software	11,284	-	3,306	110	14,700	7
Kansai region Osaka office and 12 stores						
Equipment appurtenant to buildings Store furnishings Testing equipment	106,554	-	26,145	-	132,699	100

Thousands of yen	Buildings and structures	Machinery and equipment	Tools, furniture and fixtures	Software	Total book value	Number of employees
Chugoku region Chugoku branch, 6 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment	39,055	-	15,002	-	54,057	25
Shikoku region Shikoku branch, and 3 stores						
Equipment appurtenant to buildings Store furnishings	9,194	-	2,668	-	11,862	10
Kyushu region Kyushu branch and 12 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment Software	61,462	-	49,265	126	110,853	74
Hong Kong branch						
Equipment appurtenant to buildings Office furnishings Software	3,476	-	526	4,708	8,710	1
	953,887	0	325,718	1,380,652	2,660,257	1,121

Securities

Marketable and investment securities

Thousands of yen		
Shares		
	Number of shares	**Book value**
Investment securities		
Other securities	50	10,900
Bonds	**Total face value**	**Book value**
Marketable securities		
Other securities	1,000,000	999,132
Others	**Units invested (10 thousand)**	**Book value**
Investment securities		
Other securities	90,686	976,421

Fixed assets

Thousands of yen	Beginning of year	Increase	Decrease	End of year	Depreciation		End of year, net
					Accumulated	Current	
Property and equipment							
Buildings	1,179,973	359,960	206,789	1,333,144	555,695	131,533	777,449
Structures	239,333	66,444	13,933	291,844	115,406	34,981	176,438
Machinery and equipment	141,565	2,078	43,665	99,978	99,978	4,305	0
Tools, furniture and fixtures	1,498,262	203,194	300,842	1,400,614	1,074,896	122,890	325,718
Construction in progress	14,675	641,181	631,676	24,180	-	-	24,180
	3,073,808	1,272,857	1,196,905	3,149,760	1,845,975	293,709	1,303,785
Intangible assets							
Goodwill	1,490,200		610,000	880,200	688,658	177,650	191,542
Trademarks	17,255	-	-	17,255	9,594	1,631	7,661
Software	1,617,702	912,298	780,273	1,749,727	369,075	191,500	1,380,652
Other	8,391	-	124	8,267	515	126	7,752
	3,133,548	912,298	1,390,397	2,655,449	1,067,842	370,907	1,587,607
Long-term prepaid expenses	31,810	11,875	1,334	42,351	23,354	7,451	18,997

Retirement benefits

Outline of retirement benefit system

The Company has established the following defined-benefit pension plans: a corporate pension system; a contract-based defined-benefit pension plan; and a system under 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	2006	2007
1. Benefit obligations	(6,299,267)	(6,085,691)
2. Pension assets	2,674,999	2,665,132
3. Unfunded benefit obligations (1+2)	(3,624,268)	(3,420,559)
4. Unrecognized actuarial losses	789,521	749,377
5. Unrecognized prior service costs	(222,788)	(205,214)
6. Amounts recognized on balance sheets (3+4+5)	(3,057,535)	(2,876,396)
7. Prepaid pension and severance costs	483,430	557,740
8. Accrued pension and severance costs (6-7)	(3,540,965)	(3,434,136)

Items related to pension and severance costs

Thousands of yen	2006	2007
Service costs	474,032	446,477
Interest expenses	149,288	143,389
Expected return on pension fund assets (subtraction)	51,451	60,350
Amortization of unrecognized service costs (subtraction)	17,574	17,574
Amortization of unrecognized actuarial losses	97,264	70,327
Additional retirement benefits	20,148	356
	671,707	582,625

Assumptions underlying the calculation of retirement benefit obligations

	2006	2007
Discount rate	2.5%	Same as 2006
Expected rate of return	2.5%	Same as 2006
Method of allocating prospective retirement benefits to each term	Point basis	Same as 2006
Amortization period for prior service costs	15 years	Same as 2006
Amortization period for actuarial loss	15 years	Same as 2006

Deferred taxes

Thousands of yen	2006	2007
Deferred tax assets	2,287,756	2,466,354

Percentage		
Statutory tax rate	40.64	40.64
<Adjustment>		
Expenses not deductible for tax purposes (such as entertainment expenses)	1.05	0.86
Corporate income taxes for prior years	1.88	1.54
Tax credits	(1.98)	(0.32)
Difference with uncertainty in schedule for deduction	5.64	-
Others	(0.94)	0.08
Income tax and others accompanying adoption of tax effect accounting	46.29	42.80

Reserves

Thousands of yen	Beginning of year	Increase	Decrease	End of year
Allowance for doubtful accounts	131,000	41,000	131,000	41,000

Related Parties

Transactions with related parties

March 31; Thousands 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
2007									
Parent company and primary institutional shareholders, etc.									
NEC	Minato-ku, Tokyo	337,822	Direct: 51.00	4	Installation and maintenance of mobile communications equipment, etc.	Installation and maintenance of mobile communications equipment, etc.	23,004,820	Accounts receivable, trade	6,019,237
						Deposits held by parent company	1,000,000	Affiliated company deposit	5,000,551
Partner companies, etc.									
Subsidiary of parent company									
NEC Saitama, Ltd.	Kamikawa-machi, Kodama-gun, Saitama	200	None	2	Procurement of parts and components for repair of mobile communications equipment, etc.	Purchases of parts for maintenance, etc.	3,714,282	Accounts payable, trade	340,405
2006									
Parent company and primary institutional shareholders, etc.									
NEC	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.	30,964,570	Accounts receivable, trade	9,155,191
						Deposits held by parent company	1,000,000	Affiliated company deposit	4,000,100
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.	4,629,166	Accounts payable, trade	442,874
NEC Facilities, Ltd.	Minato-ku, Tokyo	240	None	None	Leasing of buildings	Building leasing; payment of lease deposits	1,995,781 24,614	Lease deposits	722,862

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 net assets, 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 2007.
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, 2007	14,529,400
As of June 22, 2007	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
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	42	21,599	14.86
Securities companies	27	1,590	1.09
Businesses and other corporations	81	75,469	51.96
Non-residents: businesses and corporations	69	12,942	8.90
Non-residents: individuals	4	9	0.01
Individuals and others	8,853	33,679	23.18
	9,076	145,288	100.00
Number of shares less than one unit	-	600	-

Largest shareholders

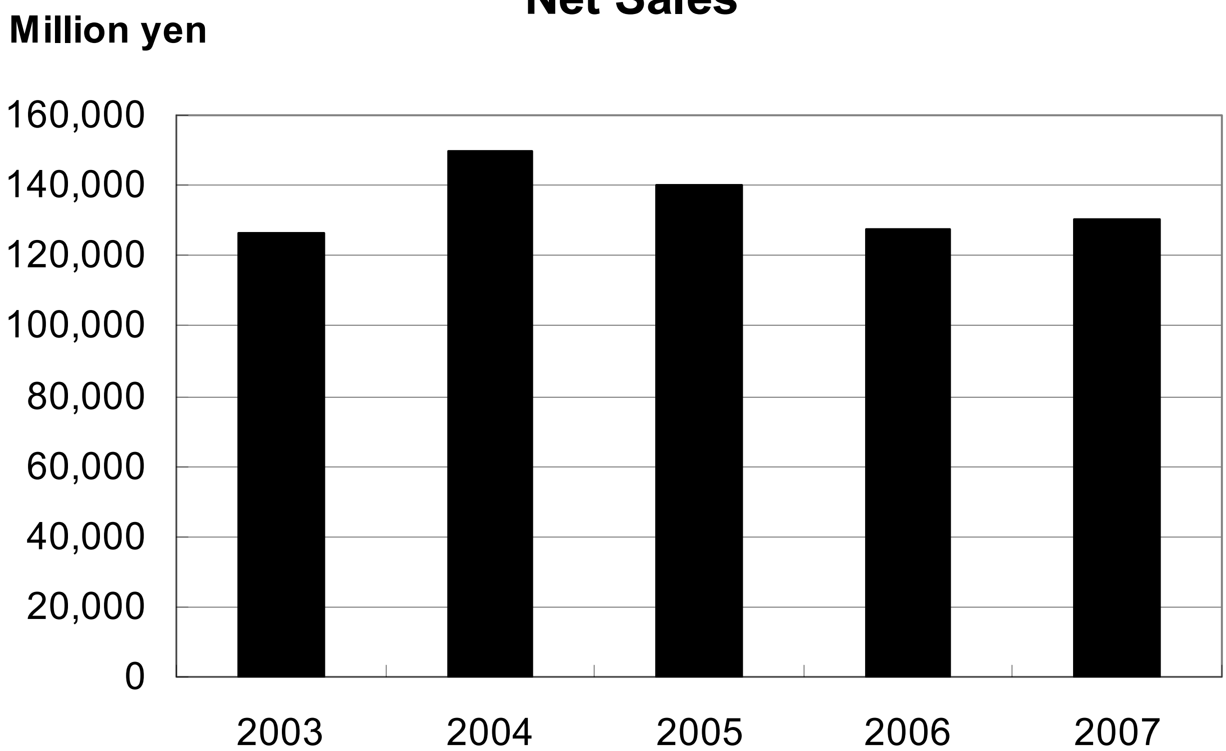
Name	Thousands of shares owned	% of shares outstanding
NEC	7,410	51.00
Master Trust Bank of Japan, Ltd. (Trust Account)	708	4.87
Japan Trustee Services Bank, Ltd. (Trust Account)	698	4.81
State Street Bank and Trust Client Omnibus Account OM02	300	2.06
Employees' stockholding association	234	1.61
Citibank London SA Stichting Shell Pensioenfonds	131	0.91
Goldman Sachs International	122	0.84
Japan Securities Finance Co., Ltd.	117	0.81
Morgan Stanley and Company Inc.	107	0.74
Deutsche Bank AG London PB Nontreaty Clients 613	76	0.53
	9,907	68.18

Share information

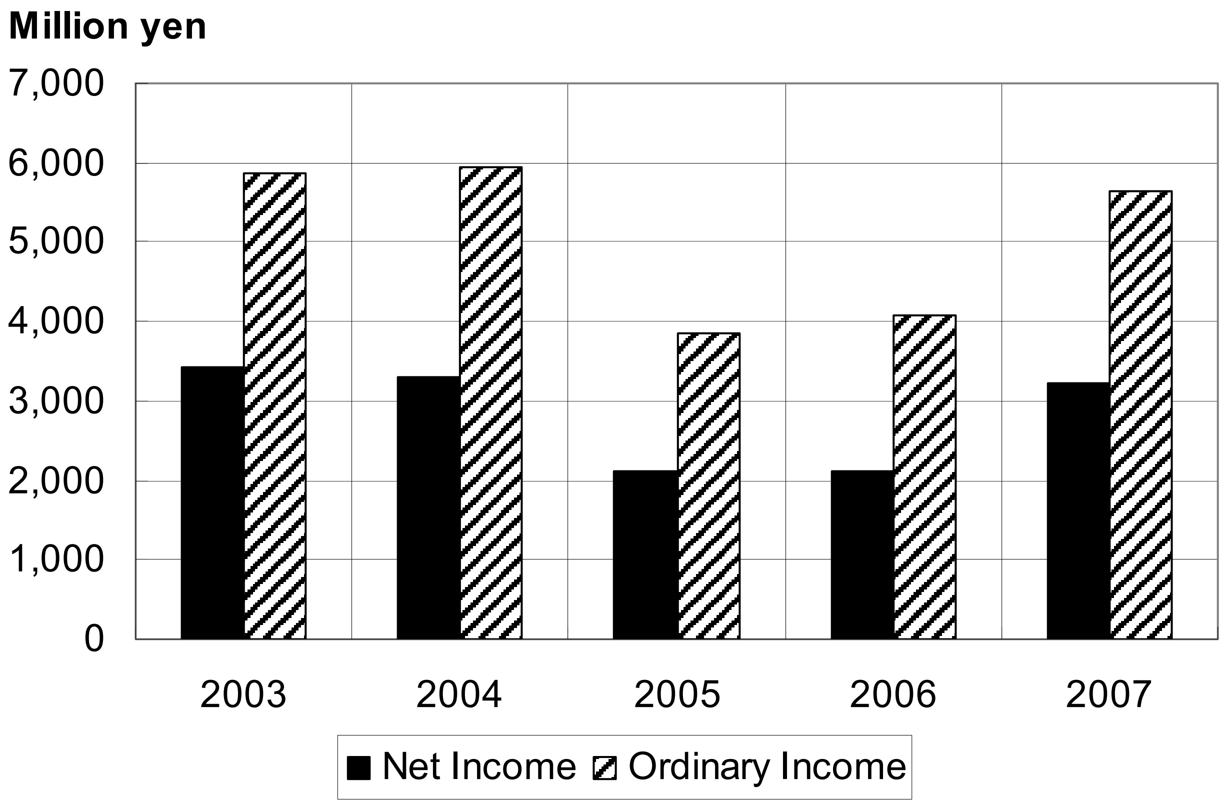
Business year	April 1 to March 31
Ex-rights date	March 31
Dates of record for dividends	September 30 and March 31
Annual General Meeting of Shareholders	June
Trading unit	100 shares
Types of share certificates	100, 1,000, 10,000 and 100,000 shares
Transfer agent	The Sumitomo Trust & Banking Co., Ltd. 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.* URL for announcements: http://www.nec-mobiling.com

Performance in Graphs

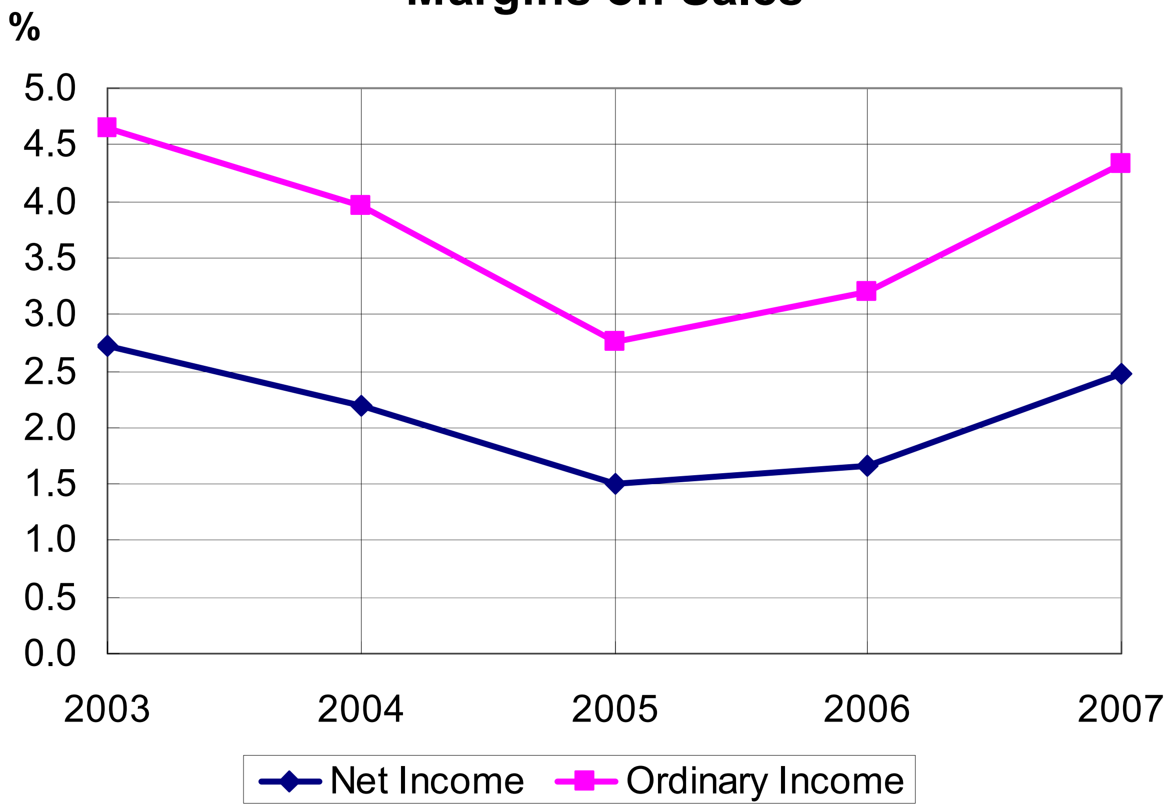
Net Sales



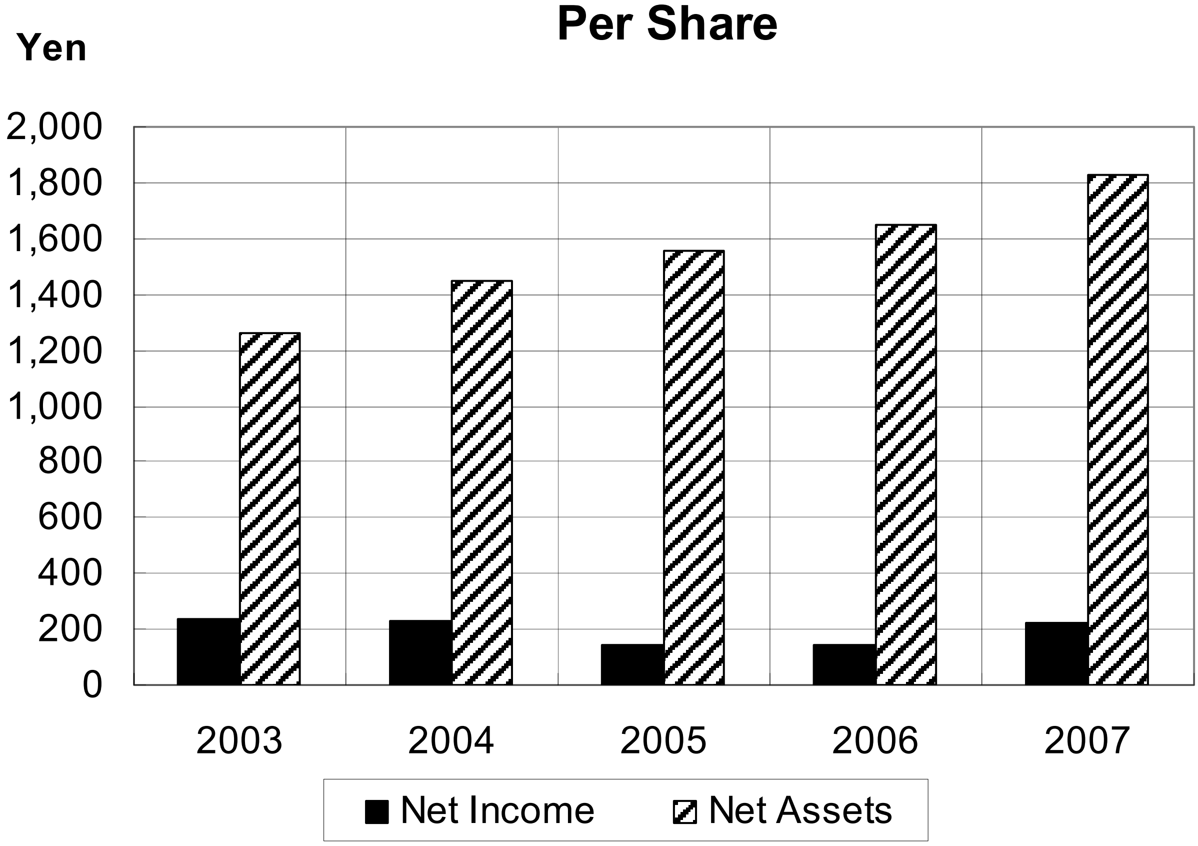
Net Income and Ordinary Income



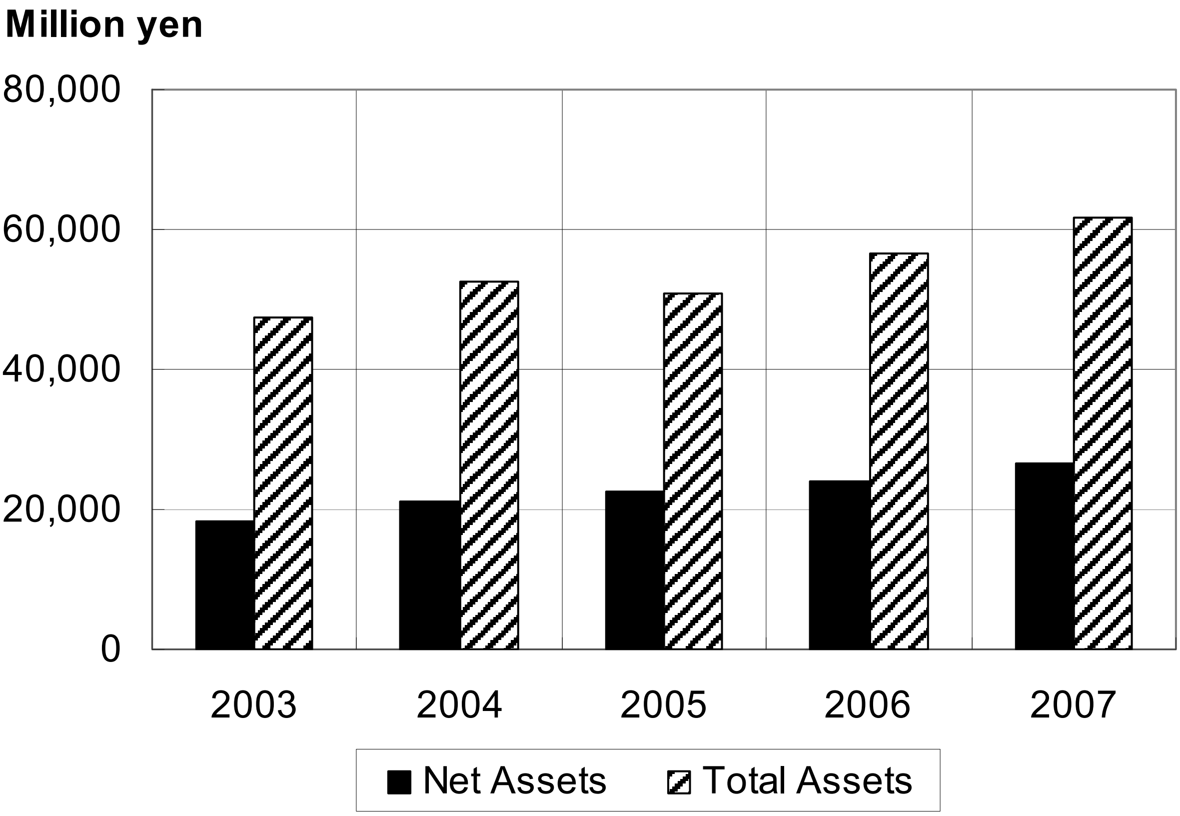
Margins on Sales



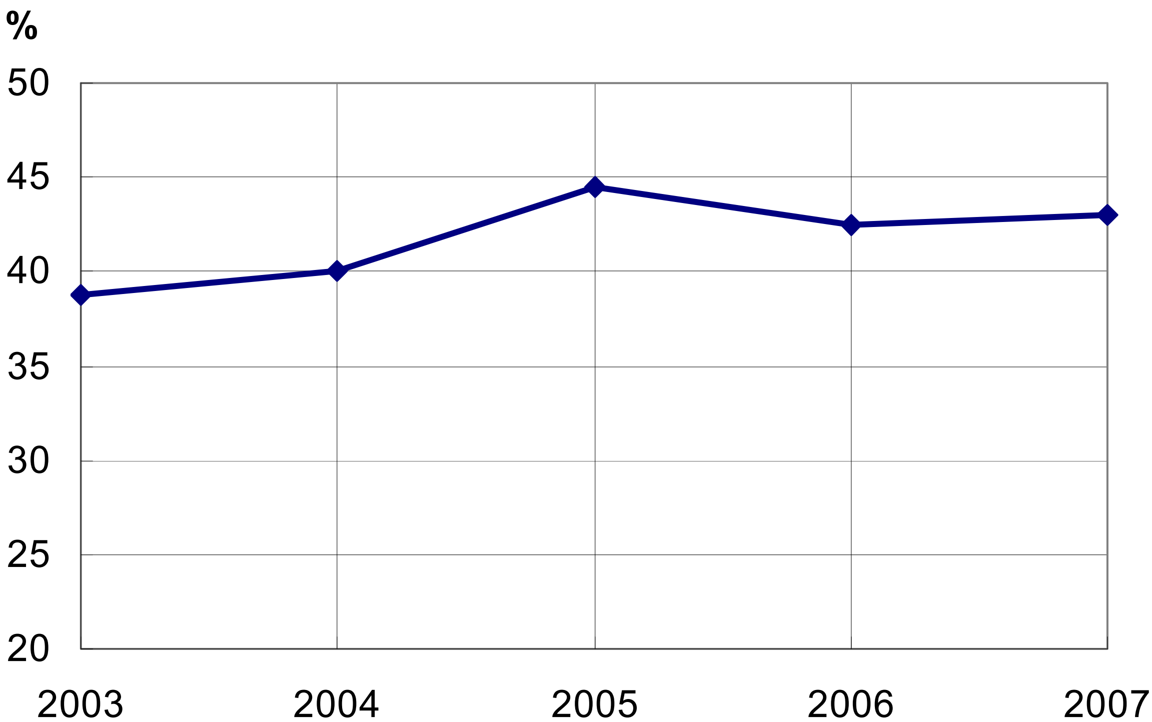
Per Share



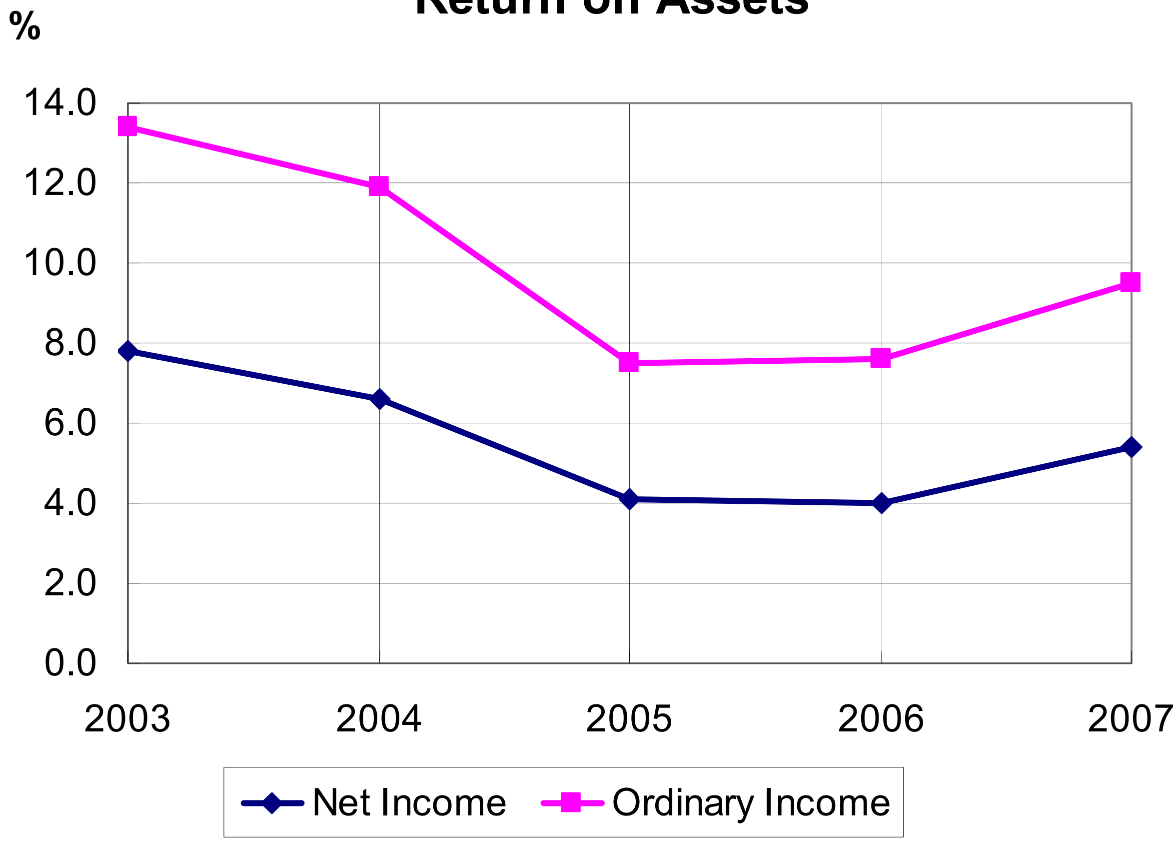
Net Assets and Total Assets



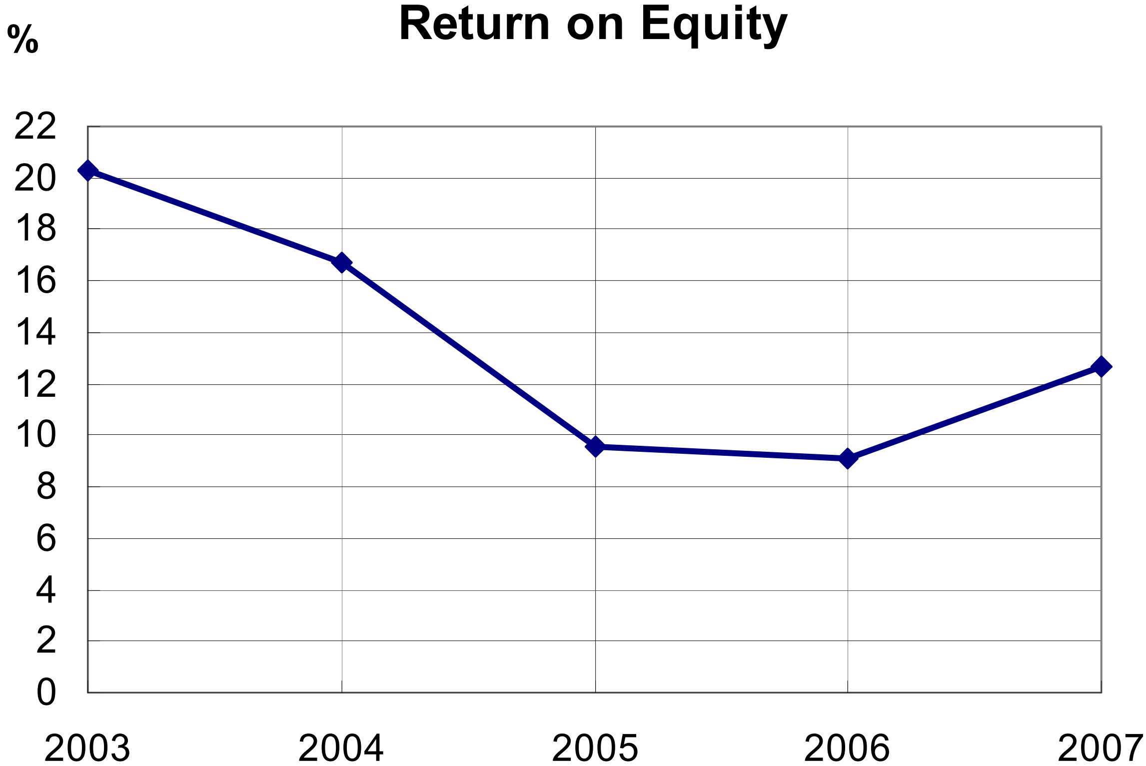
Equity Ratio



Return on Assets



Return on Equity



Contact

Investor and Public Relations Office, Controller and Finance Division
NEC Mobiling, Ltd.
4-18, Shin-Yokohama 2-chome, Kohoku-ku, Yokohama-shi,
Kanagawa 222-8520, Japan
Telephone: 81-45-476-6622
Facsimile: 81-45-476-2349