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YUHO REPORT

Annual

Fiscal Year Ended	**March 31, 2008**
Traded	**TSE1**
Stock Code	**9430**

NEC Mobiling, Ltd.

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This report is based on the Japanese-language annual filing prepared by NEC Mobiling, Ltd. (the "Company") in accordance with accounting principles and practices generally accepted in Japan and the regulations under the Securities and Exchange Law of Japan. The materials from the annual filing have been edited and reorganized in a format more familiar to the international investment community. All information contained in this report is believed to be reliable, but the Company does not guarantee that the contents are error-free. The Company has made every reasonable effort to assure accuracy, but the accuracy of the data and the translation, completeness of the report and timeliness of the information are not warranted by the Company. The Company shall not be responsible for any error or omission or for results obtained from the use of this information.

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Company Profile

Financial highlights

Years ended March 31; Thousands of yen	2004	2005	2006	2007	2008	Change 2008/2004
Net sales	149,939,949	140,195,117	127,589,653	130,252,775	129,028,049	86%
Ordinary income	5,944,108	3,854,991	4,078,280	5,640,886	5,845,094	98%
Net income	3,295,368	2,105,075	2,117,133	3,221,969	3,389,094	103%
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	21,071,693	22,557,846	23,994,252	26,573,413	29,056,054	138%
Total assets	52,685,054	50,714,715	56,464,736	61,832,011	58,638,163	111%
Net assets per share (Yen)	1,450.28	1,552.57	1,651.43	1,828.94	1,999.81	
Dividends per share (Yen)	35.00	45.00	45.00	47.50	55.00	
Net income per share (Yen)	226.81	144.88	145.71	221.76	233.26	
Net income per share, fully diluted (Yen)	–	–	–	–	–	
Dividend payout ratio (%)	15.43	31.06	30.88	21.42	23.58	
Net cash provided by operating activities	3,992,152	2,550,132	4,324,104	5,579,554	3,725,858	
Net cash used in investing activities	(2,323,543)	(1,028,870)	(1,941,274)	(1,304,201)	(3,510,984)	
Net cash used in financing activities	(579,133)	(613,496)	(658,908)	(652,486)	(761,373)	
Cash and cash equivalents at end of year	11,218,266	12,131,137	13,879,779	17,500,595	16,947,462	
Employees	1,500	1,494	1,169	1,121	1,057	70%
[Temporary employees]	[955]	[1,077]	[1,058]	[1,395]	[1,810]	190%

Business Overview

Description of business

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

The Company conducts two businesses, Mobile Sales and Mobile Integration & Support. In the former, it sells mobile phones and provides mobile solutions employing mobile communications technology. In the latter, it provides systems integration for mobile communications systems and maintenance services for mobile phones and base stations.

Mobile Sales

In its role as a primary distributor for mobile network operators such as NTT DoCoMo, Inc. (NTT DoCoMo), 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, primarily DoCoMo shops, directly or indirectly 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 systems, 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 maintenance services, including troubleshooting, repairs and sales of parts for mobile communications terminals, either under subcontracting agreements 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.

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	337,940	51.00

History

Year	Month	Event
1972	December	The Company is established as NEC Mobile Radio Service, 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. Begins providing repair and maintenance services for pagers in Tokyo and Osaka.
1973	May	Establishes Engineering Department, through which it provides systems integration 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 for telecommunications installation work from the Ministry of Construction.
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 manufacture of private mobile radio systems, such as 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. and begins selling mobile phones and other related items.
	November	Opens Nishi-Ikebukuro store in Toshima-ku, Tokyo, and begins retailing mobile phones and other related items at store.
1994	March	Establishes retailing network for mobile phones and other related items in nine regions spanning the country.
	October	Obtains ISO9001 certification, an international standard of quality control system.
1997	June	Increases capital to 400 million yen.
1998	March	Obtains license to operate as a recognized certification company for the 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, an international standard of environmental management standards.

Year	Month	Event
2001	February	Increases capital to 600 million yen.
	March	Increases capital to 935.28 million yen.
	May	Signs an agreement to assume sales operations for the 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.
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), an international standard of quality management system.
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 the People's Republic of China.
2005	February	Obtains Privacy Mark certification, the Japanese Industrial Standard for management systems for personal information protection.
2006	April	Transfers its Mobile Software business to NEC Communication Systems, Ltd.
2007	April	Transfers its private mobile radio business to NEC Network and Sensor 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 merit disclosure considering the importance of investors to its decision-making process.

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 is a member of the NEC Group (NEC owns 51.00% of the Company's shares).

- The bulk of the orders received by the Mobile Integration & Support business come from NEC.

- In the year to March 2007, 17.7% of the Company’s total sales were to NEC; in the year to March 2008, the figure was 14.5%.
- Any change in the NEC Group’s business policies or in the Company’s standing within the NEC Group could consequently adversely affect the Company’s 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 the NEC Group

- Of the Company’s ten directors and corporate auditors, four were concurrently employees of NEC as of March 31, 2008.
- Of the Company’s 1,057 employees as of March 31, 2008, a total of 55 were seconded from NEC Group.
- The seconded employees 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 other 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 80.4% and 83.8% of the Company’s sales in the years to March 2007 and March 2008, 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 sale 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 change in the provisions of services and payment contracts entered into with mobile network operators, which include amounts, payment periods, services to be performed and subscribers' call charge amounts subject to 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:	2007		2008	
		Amount	Percent	Amount	Percent
Commissions received	Net sales	31,609	28.6%	33,152	31.6%
Incentives received	Cost of sales (deduction)	79,020	71.4%	71,621	68.4%
Total		110,629	100.0%	104,773	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: fees received for services rendered on behalf of mobile network operators (writing new subscriber contracts, changing subscriber phones to different models, repairs, etc.)*
- *Stock commissions: fees received for a certain period of time in accordance with the number of customers serviced and the amount of call charges.*
- *Incentives: fees received in accordance with the types and numbers of mobile phones sold.*

- 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 102.72 million as of March 31, 2008, 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.
- The Mobile Business Revitalization Plan announced by MIC (Ministry of Internal Affairs and Communications) in September 2007 requested mobile network operators to introduce a new subscription scheme (separation plan) which separates the handset prices and service charges to be borne in order to assure transparency for subscribers. As a result, the mobile network operators implemented the new subscription scheme in accordance with MIC’s request, together with installment payments for handsets. In this way, the sales and rate strategies of mobile network operators could be affected by new government policies, which could, in turn, impact the Company’s financial performance.
- The Company, for its part, will continue to pursue strategies for its sales and sales channels that are in accord with the policies and strategies of the network operators. New service charge plans, an increasing diversification of network services, and a trend toward phones with more highly advanced functions make it increasingly important for the Company to develop staff with the requisite skills to explain and introduce products to customers. The Company will consequently endeavor to strengthen its educational and support capabilities with a view to enhancing the skills of its staff and acquiring certification from mobile network operators.

(2) Mobile Integration & Support

- This business accounted for 19.6% and 16.2% of the Company’s sales in the years to March 2007 and March 2008, 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, 2008, the Company operated 197 stores in its Mobile Sales business, of which 169 were DoCoMo Shops.
- In the year ended March 2007, 95.9% of products procured for mobile phone sales were from NTT DoCoMo; in the year ended March 2008, the corresponding figure was 96.4%.
- 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.
- Finally, the NTT DoCoMo Group is planning to merge NTT DoCoMo's regional subsidiaries with NTT DoCoMo. Following the merger, the Company will enter into a new contract with NTT DoCoMo.

(3) Shop development

- As described above in the discussion of 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 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.
- Maintenance services for mobile communications terminals are subject to the Electrical Appliance and Material Safety Law.
- The Company is subject to the provisions 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 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 seeks, 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 2008, the Company engaged in research and development related to its mobile solutions business, for which it spent a total of 10 million yen.

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 decreased by 0.9%, or 1,225 million yen, to 129,028 million yen.
  - Mobile Sales: Sales increased by 3.3% to 108,168 million yen, reflecting the successful capture of replacement demand through an expanded sales network (see discussion under “Results of operations”) and increases in the prices of handsets following the implementation of the separation plan.
  - Mobile Integration & Support: Sales decreased by 18.2%, to 20,860 million yen. (See discussion under “Results of operations.”)

(2) Cost of sales and SG&A expenses

- Reflecting the decline in sales, cost of sales decreased by 981 million yen to 114,932 million yen. The cost-of-sales ratio deteriorated by 0.1 percentage points to 89.1%. This deterioration resulted from a decline in the amount of incentives received (incentives received are treated as deductions from the cost of sales) equal to the increase in the amount of handset prices, following the implementation of the separation plan.
- SG&A expenses decreased by 380 million yen to 8,355 million yen, primarily because the Company no longer had to recognize digitalization expenses for private mobile radio systems.

(3) Non-operating income and expenses

- 277 million yen in non-operating income, primarily interest and dividend income.
- 173 million yen in non-operating expenses, primarily losses on the disposal of fixed assets and losses on the devaluation of fixed assets.

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

(1) Cash provided by operations declined by 1,854 million yen to 3,726 million yen. Cash declined because, despite a reduction in assets, there was a larger decline in liabilities.

(2) Cash used in investing activities increased by 2,207 million yen to 3,511 million yen. The larger outlays resulted from expenditures during the term to acquire investment securities, which offset a decline in amounts spent to purchase fixed assets.

(3) Under financing activities, the Company used 762 million yen in cash for the payment of dividends. This was 109 million yen more than in the previous fiscal year, reflecting an increase in dividends paid per share.

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 well in advance
- 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 (During the term under review, all corporate auditors were outside auditors. Following elections of corporate auditors by the Ordinary General Meeting of Shareholders on June 20, 2008, three of the four corporate auditors are now outside auditors.)
  - Besides conducting regular internal audits, the corporate auditors participate in Board of Directors' meetings, where they express opinions concerning the legality of the issues discussed.
- Advice from consulting attorneys who provide the Company with timely, 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 improvement of 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 statement audits
  - Audit Division
    a) To prevent corporate misconduct, the Internal Auditing Division (seven-person staff) reporting directly to the president
    b) Performs periodic internal audits of the Company's operations and of accounting activities, in general, examining the appropriateness of the procedures followed and employees' observance of laws and regulations and internal company rules
  - 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. Four CPAs, twelve junior accountants and eight 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.

d) At the Ordinary General Meeting of Shareholders held on June 20, 2008, shareholders elected AZSA & Co. as the Company's financial auditor, replacing ShinNihon (Ernst & Young).

Names of CPAs engaged in auditing	Name of auditing firm	No. of consecutive years of auditing (note)
Masatoshi 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.

Following elections of corporate auditors by the Ordinary General Meeting of Shareholders on June 20, 2008, three of the Company's four corporate auditors are now outside auditors. Of the three, two non-standing auditors are also employees of NEC, while one standing auditor is a former employee of NEC.

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

- 19 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 management members, taught by outside instructors; education of all employees in the protection of personal information and on environmental activities
  - Examinations testing employees' understanding of these issues

Compensation for Directors and Corporate Auditors

- Compensation paid to directors: 46 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: 58 million yen, for audit certification of the financial reports, as stipulated under Article 2-1 of the Certified Public Accounts Law; no payments were made for services other than those noted above.

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 resolutions be adopted by a majority of the voting rights represented.

Delegation of authority to the Board of Directors

The Company has stipulated in its Articles of Incorporation that, except when expressly stipulated otherwise by law, decisions concerning dividends on surpluses and other matters provided for under Article 459-1 of the Corporation Law shall be made by a resolution of the Board of Directors and not by a 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 agile shareholder and financing strategies as well as flexible dividend-related strategies.

With respect to the acquisition of its own shares, the Company has also stipulated in its Articles of Incorporation that it may acquire such shares through market transactions approved by a resolution of the Board of Directors. This stipulation is based on the provisions of Article 165-2 and is aimed at enabling the Company to carry out agile shareholding and financing strategies.

Requirements for special resolutions by the General Meeting of Shareholders

The Company has stipulated in its Articles of Incorporation that, to facilitate smooth operation of the General Meeting of Shareholders, special resolutions provided for under Article 309-2 of the Corporation Law shall require that Shareholders representing at least one-third of all exercisable voting rights be present and that the resolution be adopted by at least two-thirds of the voting rights represented.

Directors

Name	Title	Date joined Company	Previous or current employer/occupation	Date of birth	Term	Shares
Katsuhiro Nakagawa	President	Apr-08	NEC Corp.	3-Jan-49	1 year from the General Meeting of Shareholders (GMS) held June 20, 2008	–
Masaru Nagashima	Member of the Board	Jun-08	NEC Corp. (present)	26-May-53	1 year from GMS held June 20, 2008	–
Yuichi Kimura	Member of the Board	Jun-06	NEC Corp. (present)	6-Mar-59	1 year from GMS held June 20, 2008	–
Takashi Hiyama	Senior Vice President and Member of the Board	Jun-02	NEC Corp.	17-Nov-47	1 year from GMS held June 20, 2008	6,500
Hiromi Orikasa	Associate Senior Vice President and Member of the Board	Jun-04	NEC Corp.	1-Nov-48	1 year from GMS held June 20, 2008	1,400
Keiichi Takahashi	Corporate Auditor	Jun-08	NEC Corp.	20-Feb-49	4 years from GMS held June 20, 2008	–
Masujiro Sato	Corporate Auditor	Apr-08	NEC Corp.	1-Mar-52	4 years from GMS held June 20, 2008	–
Shigeyuki Fujii	Corporate Auditor	Jun-06	NEC Corp. (present)	12-Nov-59	4 years from GMS held June 23, 2006	–
Masayuki Sato	Corporate Auditor	Jun-08	NEC Corp. (present)	2-May-55	4 years from GMS held June 20, 2008	–
						7,900

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	1,057
	[1,810]
Average age	39.9
Average years of service	13.5
Average annual salary (Yen)	6,844,029

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, 2008, the Company had 55 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	2007	2008
Cash flows from operating activities		
Income before income taxes	5,632,806	5,845,094
Depreciation	671,321	834,154
Increase (decrease) in allowance for doubtful accounts	(90,000)	2,000
Increase (decrease) in accrued pension and severance costs	143,669	132,132
Interest and dividend income	(119,631)	(262,632)
Interest expenses	635	524
Foreign exchange loss (gain)	2,051	6,635
Loss on sales of property and equipment	232	1
Loss on disposal of property and equipment	52,192	19,560
Loss on disposal of intangible assets	50,177	27,337
Loss on devaluation of property and equipment	3,171	9,822
Loss on devaluation of intangible assets	–	102,339
Gain on transfer of business	(311,667)	–
Impairment loss on fixed assets	257,453	–
(Increase) decrease in notes and accounts receivable, trade	871,983	3,954,380
(Increase) decrease in inventories	(108,433)	212,010
(Increase) decrease receivable, other	(2,028,231)	1,115,974
Increase (decrease) in notes and accounts payable, trade	258,120	(4,426,286)
Increase (decrease) in accrued expenses	2,605,215	(1,619,345)
Increase (decrease) in consumption tax payable	(170,002)	47,992
Increase (decrease) in deposits received	(155,877)	(156,364)
Other	263,505	127,506
Sub-total	7,828,689	5,972,833
Proceeds from interest and dividend income	119,631	262,632
Payments for interest expenses	(635)	(524)
Payments for income taxes and others	(2,368,131)	(2,509,083)
Net cash provided by operating activities	5,579,554	3,725,858

Years ended March 31; Thousands of yen	2007	2008
Cash flows from investing activities		
Purchases of property and equipment	(576,714)	(479,040)
Proceeds from sales of property and equipment	101	511
Purchases of intangible assets	(941,094)	(462,630)
Proceeds from transfer of business	225,811	–
Payments for transfer of business	–	(171,229)
Purchases of investment securities	–	(2,392,104)
Other	(12,305)	(6,492)
Net cash used in investing activities	(1,304,201)	(3,510,984)
Cash flows from financing activities		
Dividends paid	(652,452)	(761,373)
Purchases of treasury stock	(34)	–
Net cash used in financing activities	(652,486)	(761,373)
Effect of exchange rate changes on cash and cash equivalents	(2,051)	(6,634)
Increase (decrease) in cash and cash equivalents	3,620,816	(553,133)
Cash and cash equivalents at beginning of year	13,879,779	17,500,595
Cash and cash equivalents at end of year	17,500,595	16,947,462

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

Year ended March 31; Thousands of yen	2007	2008
Cash on hand and in banks	11,500,912	10,948,230
Marketable securities	999,132	998,832
Affiliated company deposits	5,000,551	5,000,400
Cash and cash equivalents at end of year	17,500,595	16,947,462

Capital expenditures

The Company expended 752 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: 262 million yen
- Tools, furniture and fixtures: 124 million yen
- Software: 360 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 2009, the Company is planning to spend 1.6 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.	200	–	2008/4	2009/3
Maintenance facilities, etc.	500	–	2008/4	2009/3
Head office and Kanto Koshinetsu region, etc.				
Opening, relocation and renovation of stores, etc.	900	–	2008/4	2009/3
	1,600	–	–	–

Dividend policy

The Company's policy with respect to dividends is to maintain stable payouts, while considering a payout ratio of around 30%. This reflects its commitment not only to ensuring ample retained earnings to strengthen its base of operations and expand its business, but also to according respect and importance to shareholders as a major management priority.

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 55 yen per share (of which 27.5 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 including projects related to the FMC (Fixed Mobile Convergence) market; 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 26, 2007 Resolution of Board of Directors	400	27.50
May 14, 2008 Resolution of Board of Directors	400	27.50

Operations

Nonconsolidated statements of income

Years ended March 31; Thousands of yen	2007	2008
Net sales		
Mobile Sales	104,761,289	108,167,561
Mobile Integration & Support	25,491,486	20,860,488
	130,252,775	129,028,049
Cost of sales		
Mobile Sales	96,626,114	99,290,427
Mobile Integration & Support	19,286,515	15,641,435
	115,912,629	114,931,862
Gross profit	14,340,146	14,096,187
Selling, general and administrative expenses	8,734,765	8,355,250
Operating income	5,605,381	5,740,937
Non-operating income		
Interest income	32,372	74,068
Dividend income	87,259	188,564
Commissions received	5,877	–
Miscellaneous income	28,215	14,513
	153,723	277,145
Non-operating expenses		
Interest expenses	635	524
Loss on disposal of fixed assets	102,369	46,897
Loss on devaluation of fixed assets	3,171	112,161
Miscellaneous expenses	12,043	13,406
	118,218	172,988
Ordinary income	5,640,886	5,845,094
Extraordinary gains		
Gain on transfer of business	311,667	–
	311,667	–
Extraordinary losses		
Expenses related to transfer of business	62,294	–
Impairment loss on fixed assets	257,453	–
	319,747	–
Income before income taxes	5,632,806	5,845,094
Corporate, inhabitant and enterprise taxes	2,597,000	2,052,000
Deferred income taxes	(186,163)	404,000
	2,410,837	2,456,000
Net income	3,221,969	3,389,094

Nonconsolidated statements of changes in net assets

March 2007 term

Thousands of yen; Mar. 31, 2007	Shareholders' equity: Common stock	Additional paid-in capital	Retained earnings: Legal reserve	Other retained earnings: General reserve	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 reserve*	–	–	–	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
Purchases of treasury stock	–	–	–	–	–	–	(34)	(34)
Net changes in 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 reserve*	–	–
Dividends*	–	(326,912)
Dividends	–	(326,912)
Net income	–	3,221,969
Purchases of treasury stock	–	(34)
Net changes in 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.*

March 2008 term

Thousands of yen; Mar. 31, 2008	Shareholders' equity							
			Retained earnings					
				Other retained earnings				
	Common stock	Additional paid-in capital	Legal reserve	General reserve	Retained earnings brought forward	Total retained earnings	Treasury stock	Total shareholders' equity
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
Changes during the year								
Provision for general reserve	–	–	–	2,400,000	(2,400,000)	–	–	–
Dividends	–	–	–	–	(762,792)	(762,792)	–	(762,792)
Net income	–	–	–	–	3,389,094	3,389,094	–	3,389,094
Net changes in items other than shareholders’ equity	–	–	–	–	–	–	–	–
Total changes during the year	–	–	–	2,400,000	226,302	2,626,302	–	2,626,302
Balance as of Mar. 31, 2008	2,370,780	2,706,780	21,420	20,260,000	3,855,893	24,137,313	(34)	29,214,839

Thousands of yen; Mar. 31, 2008	Valuation and translation adjustments	
	Unrealized gains (losses) on marketable securities	Total net assets
Balance as of Mar. 31, 2007	(15,124)	26,573,413
Changes during the year		
Provision for general reserve	–	–
Dividends	–	(762,792)
Net income	–	3,389,094
Net changes in items other than shareholders’ equity	(143,661)	(143,661)
Total changes during the year	(143,661)	2,482,641
Balance as of Mar. 31, 2008	(158,785)	29,056,054

Cost of goods sold

Years ended March 31; Thousands of yen	2007	2008
Cost of sales - Mobile Sales		
Mobile terminal sales		
Merchandise at beginning of year	3,607,460	4,148,931
Purchases of merchandise	100,204,308	97,215,957
Incentives received	(79,019,658)	(71,620,622)
	24,792,110	29,744,266
Merchandise at end of year	4,148,931	3,643,386
Transfers to other accounts		
Selling, general and administrative expenses	26,830	18,492
Store operation expenses	220,379	56,818
Other	3,534	5,106
	250,743	80,416
	20,392,436	26,020,464
Sales commissions paid	65,256,086	62,097,834
Cost of sales related to mobile terminal equipment	85,648,522	88,118,298
Store operation expenses	9,807,604	9,949,591
Cost of mobile terminal sales	95,456,126	98,067,889
(Breakdown of store operation expenses)		
Wages and salaries	3,769,575	3,905,721
Overhead expenses		
Subcontracting expenses	4,933,287	5,286,769
Rental expenses	1,674,238	1,840,799
Transportation costs	318,745	186,487
Sales promotion expenses	865,653	961,460
Other	1,516,452	1,424,317
Reimbursement of operating expenses	(3,270,346)	(3,655,962)
	6,038,029	6,043,870
	9,807,604	9,949,591

Years ended March 31; Thousands of yen	2007	2008
Other sales (non-mobile terminal sales)		
Raw materials at beginning of year	12,180	33
Purchases of raw materials	594,283	574,524
	606,463	574,557
Raw materials at end of year	33	22
Cost of raw materials	606,430	574,535
Manufacturing overhead		
Subcontracting expenses	205,482	52,035
Taxes and public dues	3,839	5,438
Travel expenses	3,016	83
Supplies	20,482	16,321
Rental expenses	7,306	2,716
Commissions paid	61,408	123,850
Other	33,221	18,985
	334,754	219,428
Manufacturing costs	941,184	793,963
Semifinished components and work in process at beginning of year	41,664	6,590
	982,848	800,553
Semifinished components and work in process at end of year	6,590	6,339
Transfers to other accounts		
Selling, general and administrative expenses	24,746	15,240
Research and development expenses	59,286	9,920
	84,032	25,160
Transfers from other divisions	30,859	–
Production costs	923,085	769,054
Merchandise at beginning of year	44,871	96,679
Finished products at beginning of year	15,501	1,637
Purchases of merchandise	307,843	517,965
	1,291,300	1,385,335
Merchandise at end of year	96,679	152,810
Finished products at end of year	1,637	–
Transfers to other accounts		
Selling, general and administrative expenses	22,595	8,547
Other	401	1,385
	22,996	9,932
	1,169,988	1,222,593
Deductions from cost of merchandise based on revaluations in accordance with lower-of-cost-or-market method	–	(55)
Cost of other sales (non-mobile terminal sales)	1,169,988	1,222,538
Cost of sales - Mobile Sales	96,626,114	99,290,427

Years ended March 31; Thousands of yen	2007	2008
Cost of sales - Mobile Integration & Support		
Raw materials at beginning of year	624,311	260,323
Purchases of raw materials	7,819,259	5,956,122
	8,443,570	6,216,445
Raw materials at end of year	260,323	374,600
Cost of raw materials	8,183,247	5,841,845
Cost of labor	2,619,941	2,206,200
Manufacturing overhead		
Outsourcing expenses	6,205,670	5,192,701
Rental expenses	671,888	637,966
Subcontracting expenses	1,137,041	1,064,738
Travel expenses	240,672	150,594
Other	1,157,932	877,929
	9,413,203	7,923,928
Manufacturing costs	20,216,391	15,971,973
Semifinished components and work in process at beginning of year	447,067	417,800
	20,663,458	16,389,773
Semifinished components and work in process at end of year	417,800	456,530
Transfers to other accounts		
Manufacturing costs	–	202,280
Selling, general and administrative expenses	568,037	–
Research and development expenses	237,426	–
Other	154,916	81,688
	960,379	283,968
Production costs	19,285,279	15,649,275
Merchandise at beginning of year	1,030	451
Purchases of merchandise	1,591	733
	19,287,900	15,650,459
Merchandise at end of year	451	339
	19,287,449	15,650,120
Additions to (deductions from) cost of merchandise based on revaluations in accordance with lower-of-cost-or-market method	103	(7)
Deductions from cost of raw materials based on revaluations in accordance with lower-of-cost-or-market method	(1,037)	(8,678)
Cost of sales - Mobile Integration & Support	19,286,515	15,641,435

Results of operations

Fiscal year ended March 31, 2008

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

(1) Continued moderate growth in Japanese economy, based on:

- Generally robust corporate profitability
- Resilient consumer spending

(2) At the same time, heightened risks to economic growth resulting from:

- Economic slowdown in U.S. triggered by sub-prime mortgage crisis
- Decline in dollar's exchange rate on global exchanges
- Sharp rise in prices of raw materials

(3) In the mobile phone industry, stimulatory effects of the following factors, which contributed to a net increase of 6.01 million subscribers during the year (up 21.9%) and brought the cumulative subscription base to 102.72 million subscribers at year-end (up 6.2%).

- Entry of a new mobile network operator
- Following the announcement of a Mobile Business Revitalization Plan by the Ministry of Internal Affairs and Communications (MIC), adoption in November 2007 of a new subscription scheme that requires the separation of handset prices and service charges (separation plan)
- Increased availability of service charge discounts from mobile network operators

(4) In the NTT DoCoMo mobile phone market, an increase in the number of FOMA subscriptions to 43.95 million, bringing the total to 82% of NTT DoCoMo subscribers.

Strategic responses by the Company

(1) Acted aggressively to exploit replacement demand for high-function phones sparked by the implementation of the separation plan.

(2) Focused on expanding sales channels, and on improving operating efficiencies.

(3) Transferred private mobile radio business to NEC Network and Sensor Systems, Ltd. on April 1, 2007.

Financial highlights

(1) Sales: Decreased by 0.9% to 129,028 million yen, as the loss of revenue from the shedding of the private mobile radio business was counteracted by:
  - Higher sales in Mobile Sales operations, and
  - Increase in system integration related business for mobile network operators in Mobile Integration & Support operations

(2) Profits: Benefited from measures to improve business process.
  - Operating income: up 2.4% to 5,741 million yen
  - Ordinary income: up 3.6% to 5,845 million yen
  - Net income: up 5.2% to 3,389 million yen

Segment information

(1) Mobile Sales: Sales increased by 3.3% to 108,168 million yen; operating income decreased by 33.5% to 1,484 million yen.
  - Demand trended strongly, primarily from customers seeking to replace existing phones; these customers were responding to:
    a) Expanded product lineups for high-function phones that offer one-segment digital terrestrial TV reception, music playing and electronic money settlement
    b) Increased availability of service charge discount plans
    c) Implementation of the separation plan
  - To respond to this stronger demand, the Company:
    a) Expanded sales channels
    b) Implemented strategic investments aimed at long-term growth

(2) Mobile Integration & Support: Sales declined by 18.2% to 20,860 million yen; operating income increased by 26.1% to 4,257 million yen.
  - The sales decline reflected the transfer of the private mobile radio business to NEC Network and Sensor Systems, Ltd. The Company continued to experience steady demand for system integration related business aimed at improving the communications quality of mobile phone reception.

- Profitability benefited from:
  a) Increase in sales of systems integration-related business
  b) Improvements in business process
  c) Further advances in productivity

Issues requiring action

(1) Assessment of the environment: ongoing transformation of the market resulting from:

- The government’s adoption of policies designed to further competition, as represented by MIC’s Mobile Business Revitalization Plan
- Increasingly intense competition among mobile network operators seeking to capture and retain subscribers
- Accelerating reorganization of sales channels

(2) Although distributors will continue to be under tremendous competitive pressures, this transformation is generating new markets and business opportunities, which will require the Company to focus on:

- Ensuring the effective operation of its mobile phone sales and mobile phone repair and maintenance businesses so that it can take advantage of the continued growth in demand projected for mobile phones, which will consist largely of replacement demand
- Developing markets related to FMC services

(3) Issues: most significantly, the Company will have to deal with the following to achieve these goals:

- Develop a stronger consulting capability, which will enable it to propose optimal ways for customers to utilize mobile environments.
- Develop an ability to unearth new business opportunities that flow from the commencement of FMC services and an ability to turn these opportunities into functioning businesses.
- Develop an ability to promote and support these new businesses.

(4) Dealing with these issues will require the Company to:

- Make effective use of its resources in sales, maintenance services and system integration.

- Invest resources in the development of employee skills.
- Continue to follow through on management-related improvements, particularly on measures aimed at improving business process.

Production and sales

Production

Thousands of yen	2008	
	Amount	Year-on-year comparison (%)
Mobile Sales	936,671	93.4
Mobile Integration & Support	20,751,743	81.4
	21,688,414	81.9

Procurement

Thousands of yen	2008	
	Amount	Year-on-year comparison (%)
Mobile Sales	97,733,922	97.2
Mobile Integration & Support	733	46.1
	97,734,655	97.2

Orders

Thousands of yen	2008			
	Orders		Orders outstanding	
	Amount	Year-on-year comparison (%)	Amount	Year-on-year comparison (%)
Mobile Sales	1,054,846	86.9	30,734	26.2
Mobile Integration & Support	21,006,642	81.0	641,506	44.0
	22,061,488	81.3	672,240	42.6

Net sales

Thousands of yen	2008	
	Amount	Year-on-year comparison (%)
Mobile Sales	108,167,561	103.3
Mobile Integration & Support	20,860,488	81.8
	129,028,049	99.1

Principal customers of net sales

Thousands of yen	2007		2008	
	Amount	% of net sales	Amount	% of net sales
NEC Corporation	23,004,820	17.7%	18,690,671	14.5%
NTT DoCoMo, Inc. (including eight regional companies)	32,202,489	24.7%	33,437,505	25.9%

Main items involved in selling, general and administrative expenses

Years ended March 31; Thousands of yen	2007	2008
Salaries and allowances	2,439,603	2,483,246
Employees' bonuses	806,377	796,906
Pension and severance costs	225,978	222,498
Welfare expenses	441,189	442,940
Rental expenses	778,566	778,388
Depreciation expenses	400,587	543,610
Subcontracting expenses	955,980	1,534,349
Research and development expenses	296,712	–
Repair and maintenance expenses	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	1,993	Rent
Tools, furniture and fixtures	355	Lease

Pro forma information on leased property is as follows:

Thousands of yen	2007	2008
Vehicles and delivery equipment		
Acquisition cost	5,290	5,290
Accumulated depreciation	4,144	5,202
Net leased property	1,146	88
Tools, furniture and fixtures		
Acquisition cost	862,371	999,270
Accumulated depreciation	398,288	394,899
Net leased property	464,083	604,371
Total		
Acquisition cost	867,661	1,004,560
Accumulated depreciation	402,432	400,101
Net leased property	465,229	604,459
Future minimum lease payments, including interest portion		
Due within one year	190,029	221,848
Due after one year	280,587	390,337
	470,616	612,185
Lease payments; reversal of liability for leased asset impairment; amount equivalent to depreciation and interest expenses; and impairment losses		
Lease payments	209,452	261,284
Pro forma depreciation expenses (assuming declining-balance method)	201,550	250,227
Pro forma interest expenses	8,704	13,585

(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	2007	2008
Current assets		
Cash on hand and in banks	11,500,912	10,948,230
Notes receivable, trade	1,470	–
Accounts receivable, trade	19,544,623	15,591,712
Marketable securities	999,132	998,832
Merchandise	4,245,896	3,796,433
Finished products	1,636	–
Semifinished components	2,328	2,291
Raw materials	242,109	365,052
Work in process	422,061	460,577
Advances paid	39	–
Prepaid expenses	171,152	208,144
Deferred tax assets	1,181,000	858,000
Accounts receivable, other	10,227,202	9,111,228
Affiliated company deposits	5,000,551	5,000,400
Other	464,784	192,353
Allowance for doubtful accounts	(4,000)	(5,000)
	54,000,895	47,528,252
Fixed assets		
Property and equipment		
Buildings	1,333,144	1,482,480
Accumulated depreciation	(555,695)	(654,878)
	777,449	827,602
Structures	291,844	321,466
Accumulated depreciation	(115,406)	(149,676)
	176,438	171,790
Machinery and equipment	99,978	21,589
Accumulated depreciation	(99,978)	(4,623)
	0	16,966
Tools, furniture and fixtures	1,400,614	869,715
Accumulated depreciation	(1,074,896)	(538,286)
	325,718	331,429
Construction in progress	24,180	8,670
	1,303,785	1,356,457

Years ended March 31; Thousands of yen	2007	2008
Intangible assets		
Goodwill	191,542	27,533
Trademarks	7,661	6,139
Software	1,380,652	1,116,409
Other	7,752	7,626
	1,587,607	1,157,707
Investments and other assets		
Investment securities	987,321	4,165,190
Investments in affiliated company	163,607	163,607
Long-term loans to employees	964	979
Receivables from companies in bankruptcy and reorganization	39,305	40,464
Long-term prepaid expenses	18,997	18,690
Deferred tax assets	1,285,354	1,302,709
Lease deposits	2,178,641	2,312,554
Prepaid pension and severance costs	–	629,374
Other	302,535	180
Allowance for doubtful accounts	(37,000)	(38,000)
	4,939,724	8,595,747
Total fixed assets	7,831,116	11,109,911
Total assets	61,832,011	58,638,163

Liabilities and net assets

Years ended March 31; Thousands of yen	2007	2008
Current liabilities		
Notes payable, trade	436,720	328,947
Accounts payable, trade	15,631,880	11,302,820
Accounts payable, other	498,528	1,422,337
Accrued expenses	12,486,820	10,867,474
Accrued corporate taxes	1,636,747	1,173,686
Advances received	84,235	178,594
Deposits received	827,646	671,283
	31,602,576	25,945,141
Long-term liabilities		
Accrued pension and severance costs	3,434,136	3,383,305
Deposits received for guarantees	221,886	253,663
	3,656,022	3,636,968
Total liabilities	35,258,598	29,582,109
Net assets		
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 reserve	21,420	21,420
Other retained earnings		
General reserve	17,860,000	20,260,000
Retained earnings brought forward	3,629,591	3,855,893
	21,511,011	24,137,313
Treasury stock	(34)	(34)
Total shareholders' equity	26,588,537	29,214,839
Valuation and translation adjustments		
Unrealized gains (losses) on marketable securities	(15,124)	(158,785)
	(15,124)	(158,785)
Total net assets	26,573,413	29,056,054
Total liabilities and net assets	61,832,011	58,638,163

Trade credits

Accounts receivable, trade

Thousands of yen	2008
NEC Corporation	4,085,268
NTT DoCoMo, Inc.	2,226,060
Business Service Co., Ltd.	711,059
Konan Hanbai Co., Ltd.	703,873
Best Denki Co., Ltd.	530,110
Other	7,335,342
	15,591,712

Turnover of accounts receivable, trade

Thousands of yen	2008
Beginning balance	19,544,623
Increase	130,075,803
Collected	134,028,714
Ending balance	15,591,712
Turnover	89.6%
Average days for collection	49.4 days

Notes payable, trade

Thousands of yen	2008
HIC Co., Ltd.	76,063
SUNARROW LIMITED	37,477
Toppan Printing Co., Ltd.	30,290
TAKAGISEIKO CO.	23,525
TANSEISHA Co., Ltd.	20,948
Other	140,644
	328,947

Accounts payable, trade

Thousands of yen	2008
NTT DoCoMo, Inc.	3,594,650
NEC Leasing, Ltd.	1,358,496
NTT DoCoMo Kansai, Inc.	1,346,289
NTT DoCoMo Kyushu, Inc.	1,078,935
NTT DoCoMo Tohoku, Inc.	869,451
Other	3,054,999
	11,302,820

Market value of securities

Other quoted securities

	2007			2008		
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	10,900	3,100	–	–	–
Bonds						
JGB, local government bonds, etc.	–	–	–	–	–	–
Corporate bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
Other	–	–	–	–	–	–
	7,800	10,900	3,100	–	–	–
Securities valued on the balance sheet at amounts not exceeding the purchase cost						
Shares	–	–	–	1,372,084	1,332,542	(39,542)
Bonds						
JGB, local government bonds, etc.	–	–	–	–	–	–
Corporate bonds	–	–	–	–	–	–
Other	–	–	–	–	–	–
Other	1,005,000	976,421	(28,579)	3,015,000	2,787,048	(227,952)
	1,005,000	976,421	(28,579)	4,387,084	4,119,590	(267,494)
	1,012,800	987,321	(25,479)	4,387,084	4,119,590	(267,494)

Major investment securities without market prices

Thousands of yen	2007	2008
Other securities		
Commercial paper	999,132	998,832
Unlisted stocks	–	45,600
	999,132	1,044,432

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	–	–	–
2008				
Bonds				
Commercial paper	998,832	–	–	–
	998,832	–	–	–

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	146,207	15,249	55,910	1,115,463	1,332,829	488
Hokkaido region Hokkaido branch and 4 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment	14,493	–	1,963	–	16,456	17
Tohoku region Tohoku branch and 7 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment Software	43,323	–	6,551	34	49,908	34
Kanto Koshinetsu region Tokyo branch and 75 stores						
Equipment appurtenant to buildings Store furnishings Software	511,194	–	161,719	880	673,793	254
Tokai region Chubu branch and 11 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment Manufacturing equipment	64,184	1,717	21,631	–	87,532	46
Hokuriku region Hokuriku branch and 2 stores						
Equipment appurtenant to buildings Store furnishings Software	13,913	–	5,906	32	19,851	8

Thousands of yen	Buildings and structures	Machinery and equipment	Tools, furniture and fixtures	Software	Total book value	Number of employees
Kansai region						
Osaka office and 13 stores						
Equipment appurtenant to buildings Store furnishings Testing equipment	100,264	–	24,328	–	124,592	97
Chugoku region						
Chugoku branch and 7 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment	36,536	–	13,552	–	50,088	25
Shikoku region						
Shikoku branch and 4 stores						
Equipment appurtenant to buildings Store furnishings	7,595	–	1,918	–	9,513	12
Kyushu region						
Kyushu branch and 14 stores 1 service center 1 project office						
Equipment appurtenant to buildings Store furnishings Testing equipment	61,683	–	37,951	–	99,634	75
Hong Kong branch						
–	–	–	–	–	–	1
	999,392	16,966	331,429	1,116,409	2,464,196	1,057

Securities

Marketable and investment securities

Thousands of yen		
Shares	**Number of shares**	**Book value**
Investment securities		
Other securities		
Best Denki Co., Ltd.	1,648,000	1,324,992
Trinity, Inc.	600	45,600
Others (1company stock)	50	7,550
	1,648,650	1,378,142
Bonds	**Total face value**	**Book value**
Marketable securities		
Other securities	1,000,000	998,832
Others	**Units invested (10 thousand)**	**Book value**
Investment securities		
Other securities	285,412	2,787,048

Fixed assets

Thousands of yen	Beginning of year	Increase	Decrease	End of year	Depreciation		End of year, net
					Accumulated	Current	
Property and equipment							
Buildings	1,333,144	224,942	75,606	1,482,480	654,878	154,201	827,602
Structures	291,844	37,282	7,660	321,466	149,676	39,498	171,790
Machinery and equipment	99,978	21,589	99,978	21,589	4,623	4,623	16,966
Tools, furniture and fixtures	1,400,614	123,868	654,767	869,715	538,286	110,090	331,429
Construction in progress	24,180	392,171	407,681	8,670	-	-	8,670
	3,149,760	799,852	1,245,692	2,703,920	1,347,463	308,412	1,356,457
Intangible assets							
Goodwill	880,200	8,000	632,200	256,000	228,467	172,008	27,533
Trademarks	17,255	–	–	17,255	11,116	1,523	6,139
Software	1,749,727	359,525	461,459	1,647,793	531,384	345,361	1,116,409
Other	8,267	–	–	8,267	641	126	7,626
	2,655,449	367,525	1,093,659	1,929,315	771,608	519,018	1,157,707
Long-term prepaid expenses	42,351	7,162	15,079	34,434	15,744	7,469	18,690

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	2007	2008
1. Benefit obligations	(6,085,691)	(5,991,523)
2. Pension assets	2,665,132	2,360,412
3. Unfunded benefit obligations (1+2)	(3,420,559)	(3,631,111)
4. Unrecognized actuarial losses	749,377	1,064,819
5. Unrecognized prior service costs	(205,214)	(187,639)
6. Amounts recognized on balance sheets (3+4+5)	(2,876,396)	(2,753,931)
7. Prepaid pension and severance costs	557,740	629,374
8. Accrued pension and severance costs (6-7)	(3,434,136)	(3,383,305)

Items related to pension and severance costs

Thousands of yen	2007	2008
Service costs	446,477	376,266
Interest expenses	143,389	152,139
Expected return on pension fund assets (subtraction)	60,350	68,156
Amortization of unrecognized service costs (subtraction)	17,574	17,574
Amortization of unrecognized actuarial losses	70,327	72,339
Additional retirement benefits	356	37,362
	582,625	552,376

Assumptions underlying the calculation of retirement benefit obligations

	2007	2008
Discount rate	2.5%	Same as 2007
Expected rate of return	2.5%	Same as 2007
Method of allocating prospective retirement benefits to each term	Point basis	Same as 2007
Amortization period for prior service costs	15 years	Same as 2007
Amortization period for actuarial loss	15 years	Same as 2007

Deferred taxes

Thousands of yen	2007	2008
Deferred tax assets	2,466,354	2,160,709
Percentage		
Statutory tax rate	40.64	
<Adjustment>		
Expenses not deductible for tax purposes (such as entertainment expenses)	0.86	
Per capita inhabitant tax	1.54	
Tax credits	(0.32)	
Others	0.08	
Income tax and others accompanying adoption of tax effect accounting	42.80	

March 2008 term

The difference between the effective tax rate as stipulated by law and the corporate tax rate after application of interperiod tax allocation is less than 5 percent. No breakdown is shown in this section.

Reserves

Thousands of yen	Beginning of year	Increase	Decrease	End of year
Allowance for doubtful accounts	41,000	43,000	41,000	43,000

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 Corporation	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
2008									
Parent company and primary institutional shareholders, etc.									
NEC Corporation	Minato-ku, Tokyo	337,940	Direct: 51.00	4	Installation and maintenance of mobile communications equipment, etc.	Installation and maintenance of mobile communications equipment, etc.	18,690,671	Accounts receivable, trade	4,085,268
						Deposits held by parent company	–	Affiliated company deposit	5,000,400
Partner companies, etc.									
Subsidiary of parent company									
NEC Saitama, Ltd.	Kamikawa-machi, Kodama-gun, Saitama	200	None	3	Procurement of parts and components for repair of mobile communications equipment, etc.	Purchases of parts for maintenance, etc.	4,265,860	Accounts payable, trade	460,915

Accounting Policies

Summary of accounting policies: nonconsolidated

Basis of 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 2008.
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, 2008	14,529,400
As of June 20, 2008	14,529,400
Stock exchange listings	Tokyo Stock Exchange, First Section
Comments	–

Changes in common stock and number of shares issued

Shares Thousands of yen Date	Shares outstanding		Common stock		Additional paid-in capital		
	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	29	20,410	14.05
Financial instrument firms	26	1,078	0.74
Businesses and other corporations	75	75,409	51.91
Non-residents: businesses and corporations	76	13,868	9.54
Non-residents: individuals	4	9	0.01
Individuals and others	8,394	34,512	23.75
	8,604	145,286	100.00
Number of shares less than one unit	–	800	–

Largest shareholders

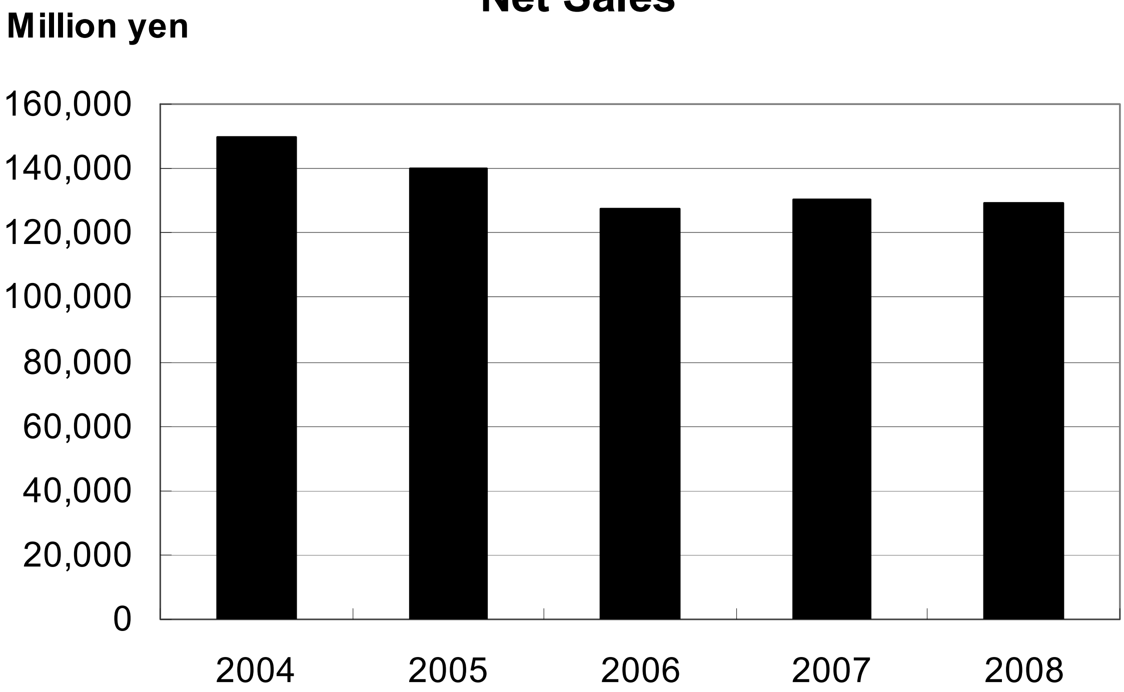
Name	Thousands of shares owned	% of shares outstanding
NEC Corporation	7,410	51.00
Japan Trustee Services Bank, Ltd. (Trust Account)	751	5.17
The Master Trust Bank of Japan, Ltd. (Trust Account)	652	4.49
Melon Bank NA Treaty Clients Omnibus	300	2.06
Employees' stockholding association	215	1.48
Citibank London SA Stichting Shell Pensioenfonds	196	1.35
Goldman Sachs International	134	0.93
Bank of New York GCM Client Account JPRDISGFEAC	117	0.81
Trust & Custody Services Bank, Ltd.	111	0.77
Morgan Stanley and Company Inc.	86	0.59
	9,975	68.65

Share information

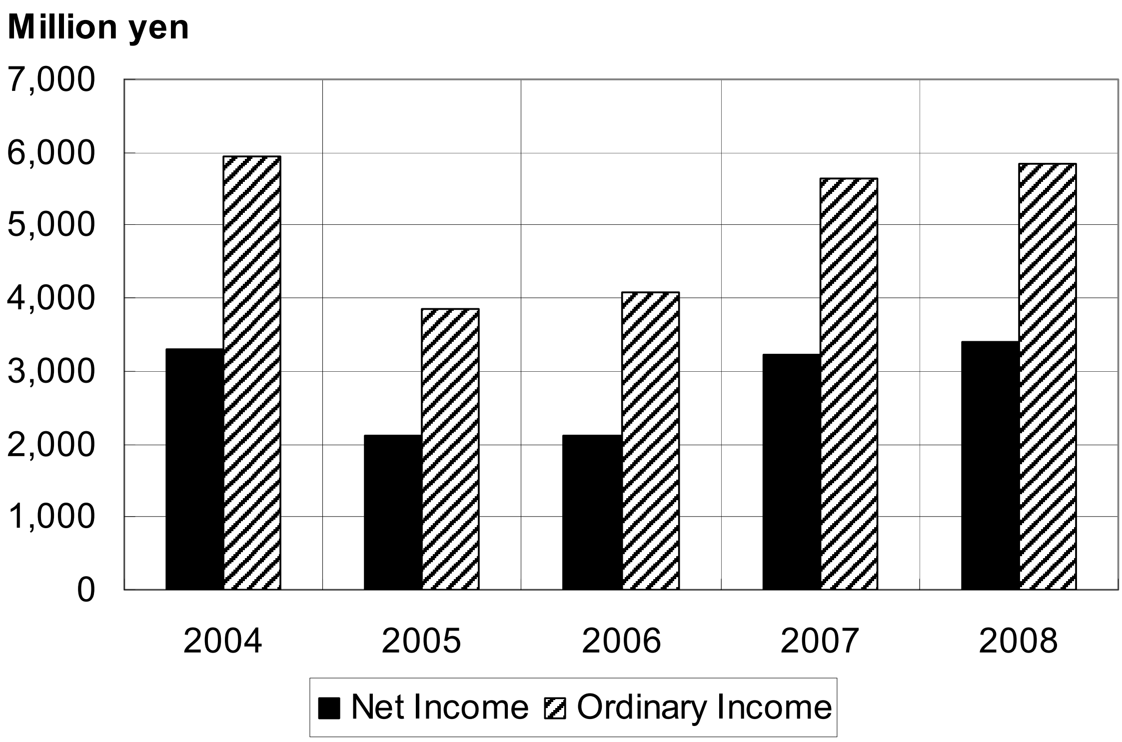
Business year	April 1 to March 31
Ex-rights date	March 31
Dates of record for dividends	September 30 and March 31
Annual General Meeting of Shareholders	June
Trading unit	100 shares
Types of share certificates	100, 1,000, 10,000 and 100,000 shares
Transfer agent	The Sumitomo Trust & Banking Co., Ltd. 4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Publication of record	Electronic method 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

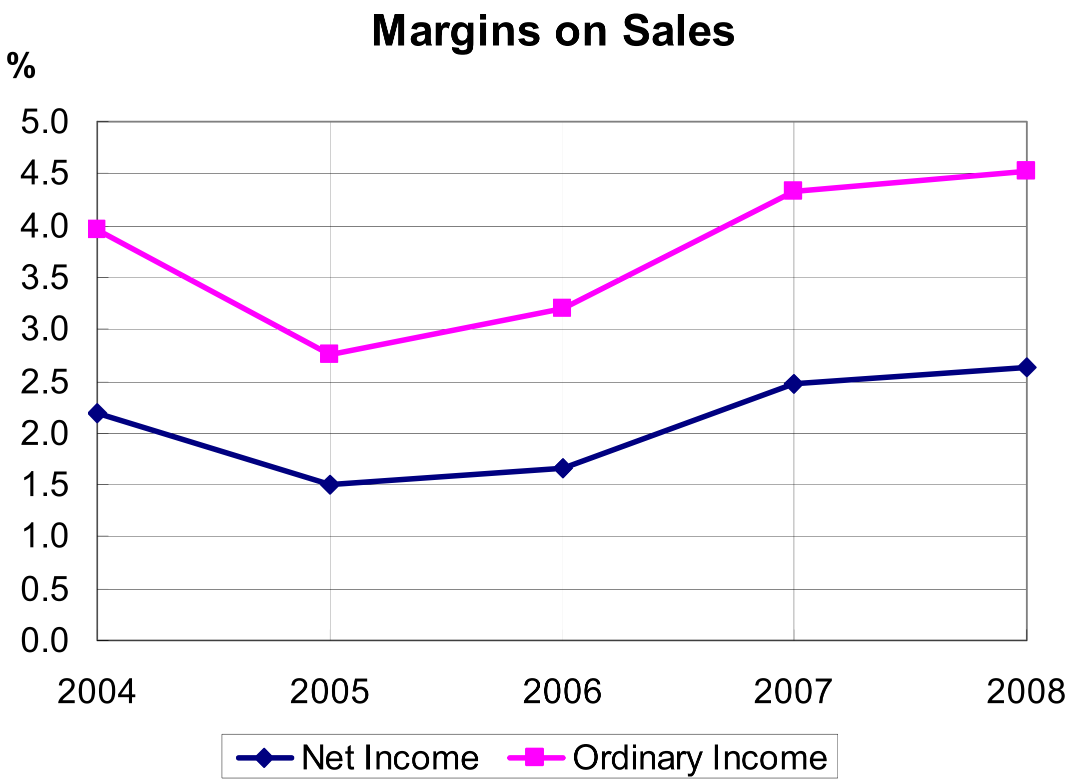
Performance in Graphs

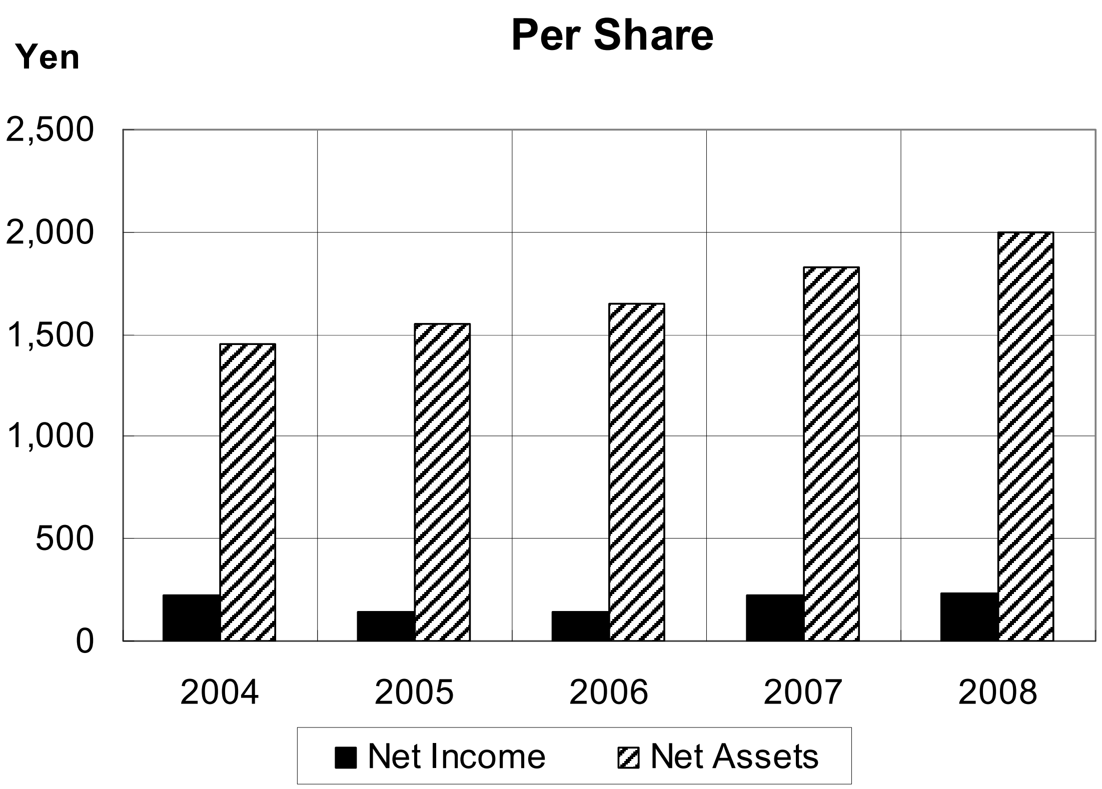
Net Sales

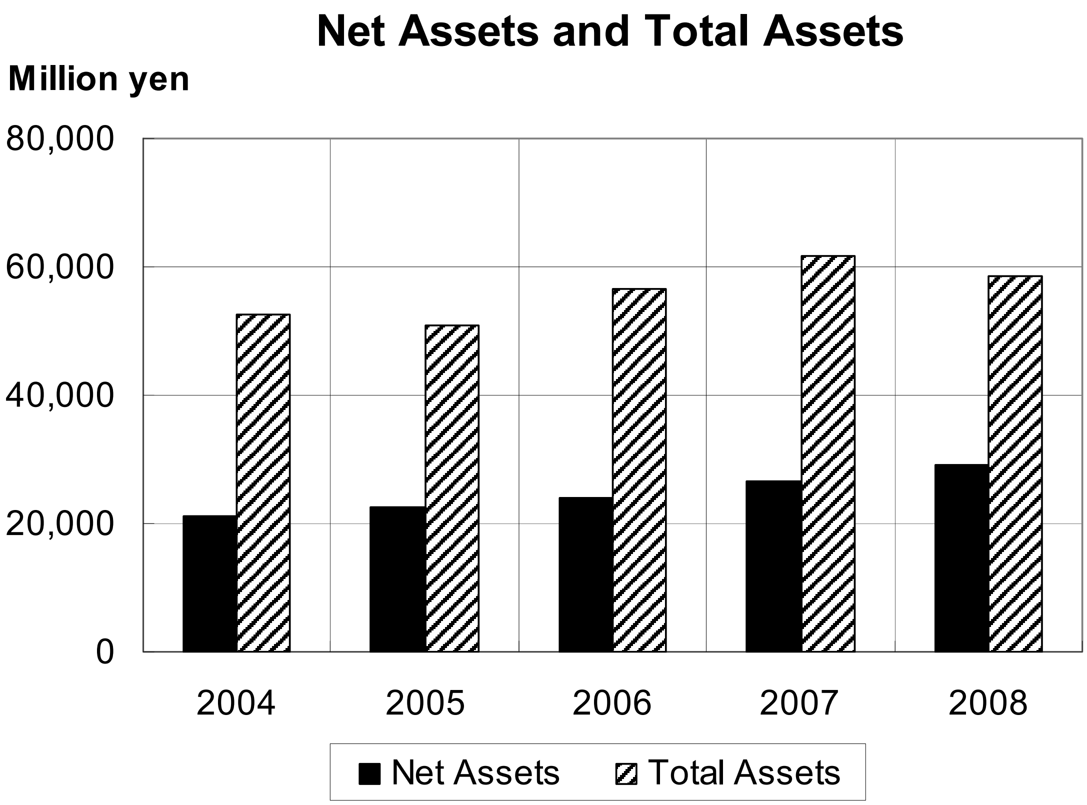


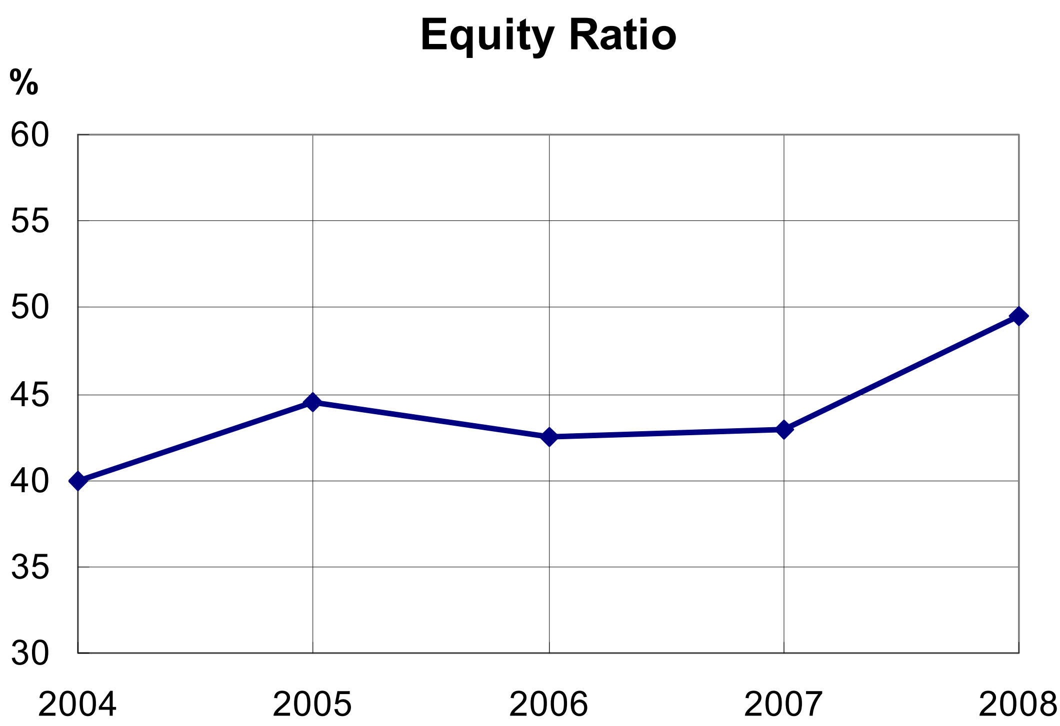
Net Income and Ordinary Income

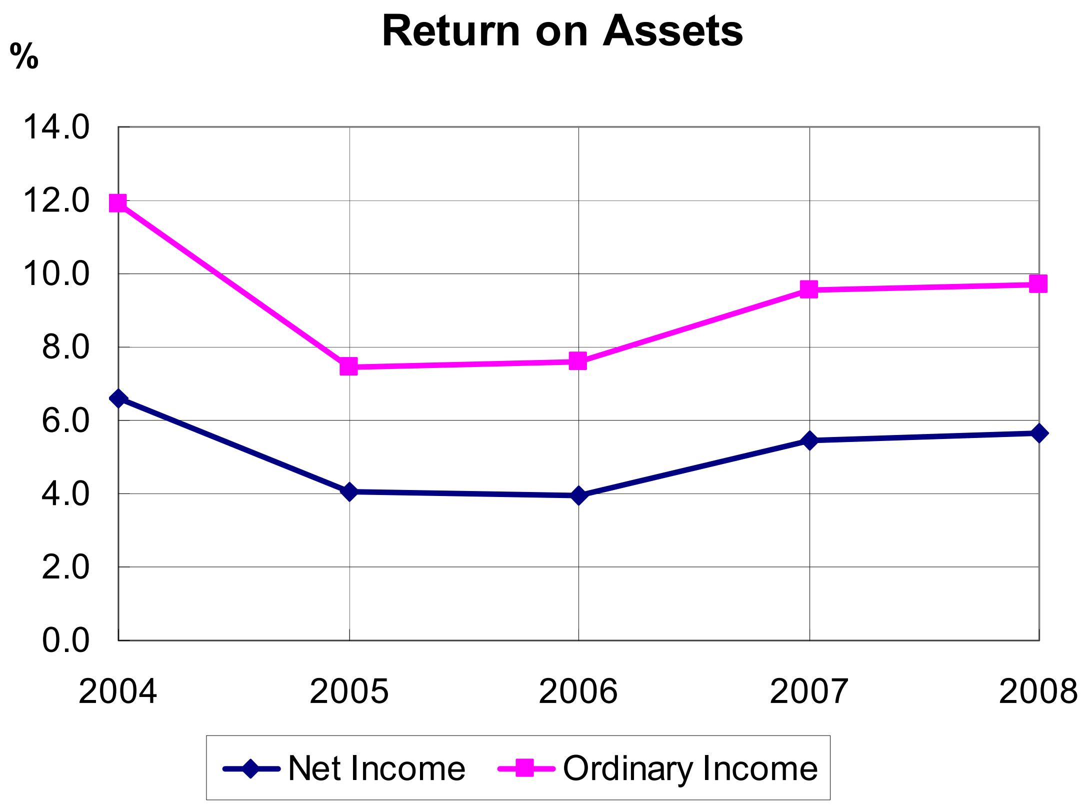


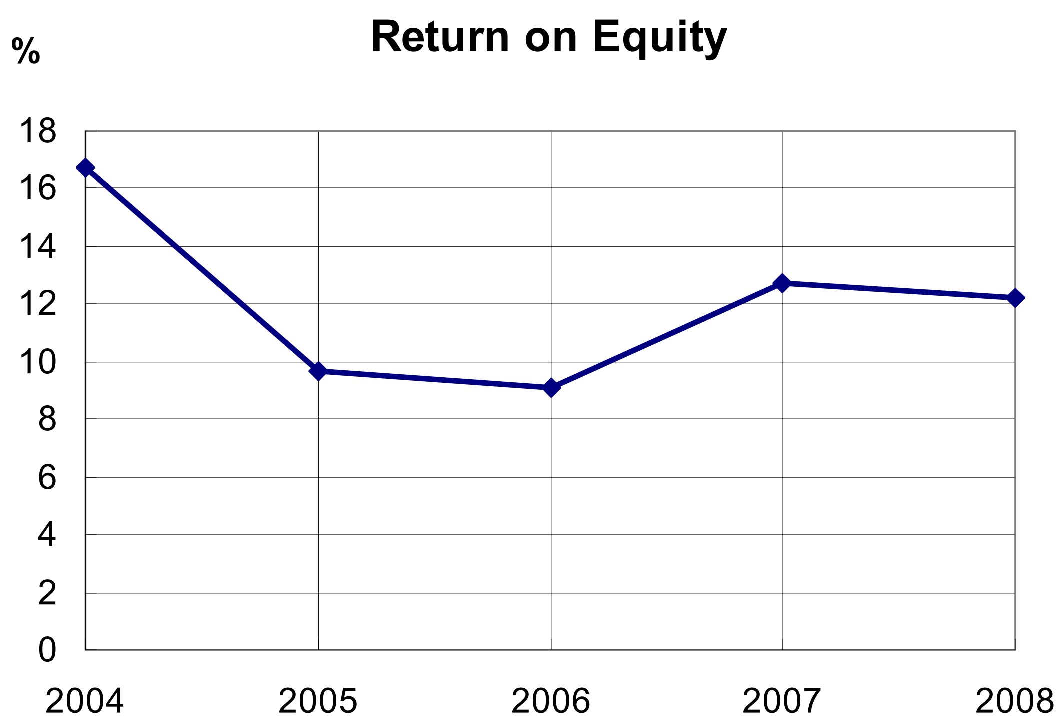

Margins on Sales
%
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
2004
2005
2006
2007
2008
Net Income
Ordinary Income


Per Share
Yen
2,500
2,000
1,500
1,000
500
0
2004
2005
2006
2007
2008
Net Income
Net Assets


Net Assets and Total Assets
Million yen
80,000
60,000
40,000
20,000
0
2004
2005
2006
2007
2008
Net Assets
Total Assets


Equity Ratio
%
60
55
50
45
40
35
30
2004
2005
2006
2007
2008


Return on Assets
%
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
2004
2005
2006
2007
2008
Net Income
Ordinary Income


Return on Equity
%
18
16
14
12
10
8
6
4
2
0
2004
2005
2006
2007
2008

Contact

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
http://www.nec-mobiling.com

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
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