

# Annual Securities Report

(The English translation of the “*YUKASHOKEN-HOKOKUSHO*”  
for the fiscal year ended March 31, 2012)

## NEC Mobiling, Ltd.

The attached report has been prepared by extracting, compiling and translating the Annual Securities Report (*YUKASHOKEN-HOKOKUSHO*) submitted to the Director of the Kanto Local Finance Bureau of the Ministry of Finance of Japan on June 19, 2012 pursuant to the Financial Instruments and Exchange Act. The Company has made every reasonable effort to extract information and assure the accuracy of information, however, the completeness of the report, the accuracy of the data and the translation and timeliness of the information are not warranted by the Company. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising therefrom.

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## Company Information

### I. Overview of NEC Mobiling, Ltd.

#### 1. Trends in principal management benchmarks

##### (1) Management benchmarks (consolidated)

Term	38th business year	39th business year	40th business year
Accounting period	From April 1, 2009 to March 31, 2010	From April 1, 2010 to March 31, 2011	From April 1, 2011 to March 31, 2012
Net sales (Millions of yen)	–	125,620	126,084
Ordinary income (Millions of yen)	–	9,816	10,613
Net income (Millions of yen)	–	5,496	4,888
Comprehensive income (Millions of yen)	–	5,367	5,455
Net assets (Millions of yen)	34,818	38,732	42,590
Total assets (Millions of yen)	67,233	70,984	77,676
Net assets per share (Yen)	2,396.38	2,665.81	2,931.27
Net income per share (Yen)	–	378.28	336.45
Net income per share, fully diluted (Yen)	–	–	–
Equity ratio (%)	51.8	54.6	54.8
Return on equity (ROE) (%)	–	14.9	12.0
Price earnings ratio (PER) (Times)	–	6.72	8.49
Net cash provided by (used in) operating activities (Millions of yen)	–	5,556	6,847
Net cash provided by (used in) investing activities (Millions of yen)	–	(1,418)	(718)
Net cash provided by (used in) financing activities (Millions of yen)	–	(1,484)	(1,670)
Cash and cash equivalents at end of year (Millions of yen)	–	23,240	27,699
Number of employees [Separately, average number of temporary employees] (Person)	1,213 [2,076]	1,199 [2,689]	1,227 [2,690]

(Notes) 1. Net sales do not include consumption taxes.

2. Diluted net income per share is not presented because there were no potential shares such as bonds with subscription rights to shares.

3. Because the 38th business year was the first business year for the NEC Mobiling Group (the Group) to report results on a consolidated basis to reflect its acquisition of a certain company, whose deemed acquisition date fell on the last day of the said fiscal year, only the balance sheet section is reported on a consolidated basis. Therefore, only consolidated balance sheet items and number of employees are presented.

4. The number of employees refers to full-time employees (excluding those seconded out of the Group and including those seconded into the Group) and the number of temporary employees (those from temporary staffing agencies, etc.) is presented separately in brackets as an annual average. The average number of temporary employees for the 38th business year indicates the number for the filing company on a non-consolidated basis.

## 2. History

Date	Event
December 1972	<p>The Company is established as “NEC Mobile Radio Service, Ltd.” in Minato-ku, Tokyo. Capitalized at ¥20 million, it initiates operations involving sales and maintenance services for mobile communications equipment and systems, design and contracting of works related to its equipment and sales of its equipment and parts, etc.</p> <p>Begins providing repair and maintenance services for pagers in Tokyo and Osaka areas.</p> <p>Begins maintenance services for train radio systems as its private mobile radio business.</p>
May 1973	Begins providing system engineering and maintenance services for mobile communications base stations, including on-site installation and tuning of base station systems.
June 1973	Begins selling mobile and other communications equipment and systems.
December 1979	Begins maintenance services for car phones in Tokyo area.
June 1981	Begins developing software for mobile communications equipment and systems as its mobile software business.
March 1982	Obtains general license for “telecommunications installation work” from the Ministry of Construction.
May 1987	Moves the head office to Kohoku-ku, Yokohama-shi, Kanagawa.
April 1990	Changes its name to “NEC Mobile Communications, Ltd.”
April 1992	Enters into distributorship agreement with the current NTT DOCOMO, Inc. and begins selling mobile phones and other related items.
November 1992	Opens Nishi-Ikebukuro shop in Toshima-ku, Tokyo and begins retailing mobile phones and other related items at the shop.
March 1994	Establishes retailing network for mobile phones and other related items in nine regions across the country.
October 1994	Obtains ISO 9001 certification, an international standard for quality management systems.
January 2000	Obtains ISO 14001 certification, an international standard for environmental management systems.
July 2001	Changes its name to “NEC Mobiling, Ltd.”
February 2002	Lists shares on the Second Section of the Tokyo Stock Exchange.
March 2003	Lists shares on the First Section of the Tokyo Stock Exchange.
June 2003	Takes over mobile phone sales business from NEC CustomMax, Ltd. (current NEC Embedded Products, Ltd.)
April 2004	Establishes Shanghai Mobiling, Ltd. in the People’s Republic of China.
February 2005	Obtains PrivacyMark certification, Japanese Industrial Standards for personal information protection management systems.
April 2006	Transfers its mobile software business to NEC Communication Systems, Ltd.
April 2007	Transfers its private mobile radio business to NEC Network and Sensor Systems, Ltd.
March 2010	Acquires all shares of Matsuhaya Corporation, making it a consolidated subsidiary.
February 2011	Moves the head office to Chiyoda-ku, Tokyo.

### **3. Business contents**

The NEC Mobiling Group (the Group) is composed of NEC Mobiling, Ltd. (the Company) and its consolidated subsidiaries.

The Company conducts two businesses, Mobile Sales Business and Mobile Service Business. In the Mobile Sales Business, it sells mobile communications terminals, etc. In the Mobile Service Business, it provides system engineering services for mobile communications systems and maintenance services for mobile communications terminals and base stations.

The categorization of these businesses corresponds identically to the categorization of segments.

#### **Mobile Sales Business**

In its role as a primary distributor for mobile network operators such as NTT DOCOMO, Inc. (NTT DOCOMO), the Company is engaged in subscriptions for mobile phone and other related services, selling communications terminals/ peripheral merchandise and providing subscriber-related support services such as repairs and user fee collection. To achieve its business objectives, the Company undertakes activities including the operation of direct-sales shops across the country, primarily DOCOMO shops, and partner shops under third-party agreements between mobile network operators, the Company and secondary distributors, as well as the organization of sales channels.

(Note) Mobile network operators are Type 1 telecommunications enterprises engaged in telecommunications business under their own telecommunication facilities, providing mobile communications services for mobile phones, etc.

Main companies: The Company and Matsuhaya Corporation

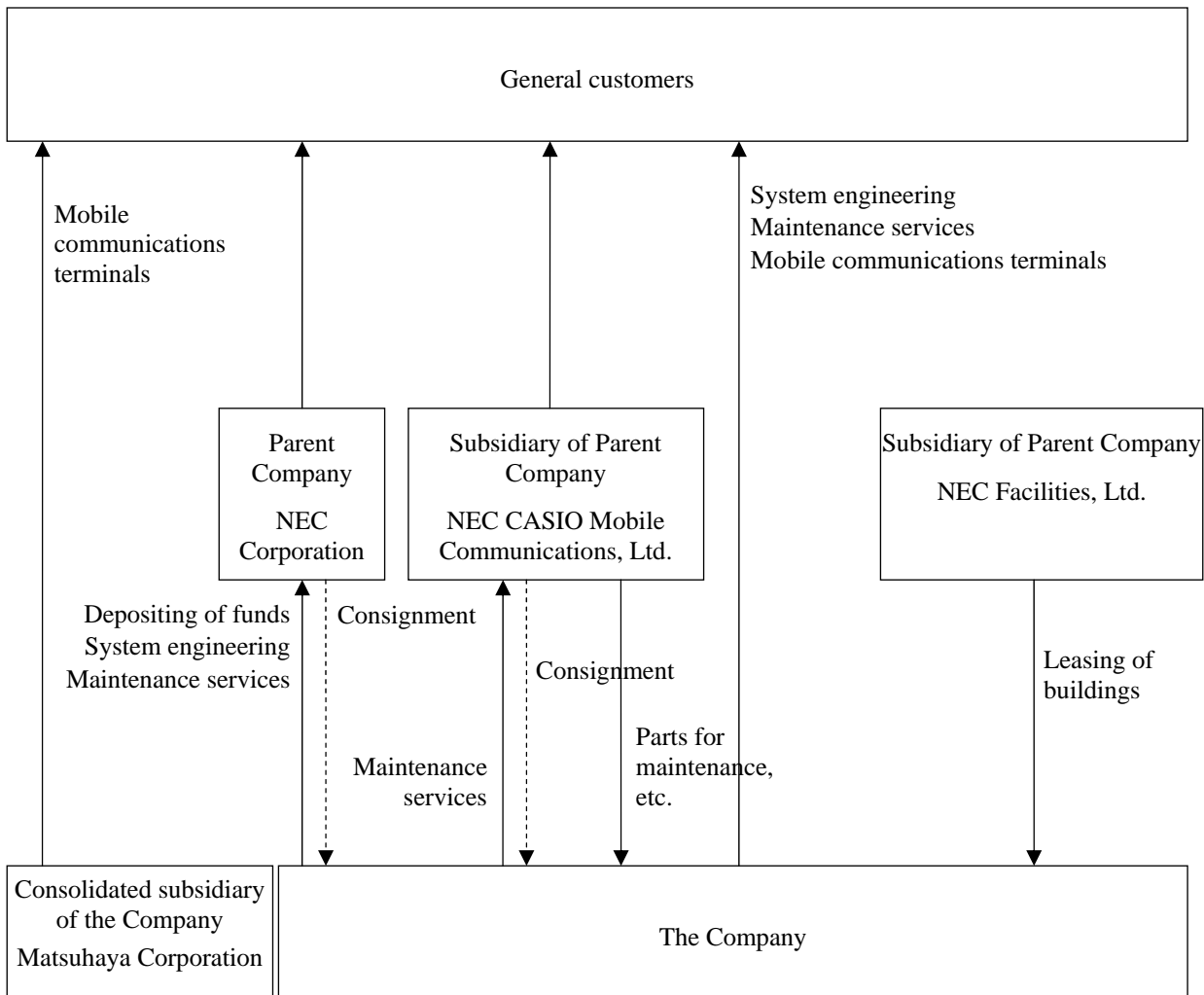
#### **Mobile Service Business**

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

The Company also provides maintenance services including failure diagnosis, repairs and sales of parts for mobile communications terminals, either under subcontracting agreements with NEC Corporation and its subsidiaries or under direct agreements with mobile network operators. To provide these services, the Company has established service centers in Tokyo, Yokohama, Osaka and Fukuoka.

Main companies: The Company

The following organization chart shows our business operations with its affiliates including the parent company NEC Corporation, major subsidiary Matsuhaya Corporation, and fellow subsidiaries.



#### 4. Status of parent company and subsidiaries

Name	Location	Capital (Millions of yen)	Principal operations	Possession [possessed] ratio of voting rights (%)	Relationship
(Parent company)  NEC Corporation	Minato-ku, Tokyo	397,199	Manufacture and sales of computers, communications equipment and software as well as provision of related services	[51.00]	Contracting of installation and maintenance services for mobile communications equipment
(Consolidated subsidiary)  Matsuhaya Corporation	Nagasaki-shi, Nagasaki	10	Mobile Sales Business	100.00	Operation of partner shops as the Company's secondary distributors from April 1, 2010 Interlocking directors
Other 2 companies					

(Notes) 1. NEC Corporation files annual securities reports.

2. Description in the "Principal operations" section for the consolidated subsidiary is the name of the business segment.

#### 5. Status of employees

##### (1) Consolidated companies

As of March 31, 2012

Name of business segment	Number of employees (Person)	
Mobile Sales Business	795	[2,327]
Mobile Service Business	261	[335]
Corporate (common)	171	[28]
Total	1,227	[2,690]

(Notes) 1. The number of employees refers to full-time employees (excluding those seconded out of the Group and including those seconded into the Group) and temporary employees (those from temporary staffing agencies, etc.) are presented separately in brackets as an annual average.

2. The number of employees presented in the "Corporate (common)" section is the number of those working for the administrative division, which is unclassifiable to specific segments.

## II. Review of operations

### 1. Overview of operating results

#### (1) Operating results

##### i) General Overview

Consolidated operating results for the fiscal year ended March 31, 2012(in millions of yen)

	Fiscal Year ended March 31, 2011	Fiscal Year ended March 31, 2012	YoY (%)
Net Sales	125,620	126,084	0.4%
Operating Income	9,608	10,438	8.6%
Ordinary Income	9,816	10,613	8.1%
Net Income	5,496	4,888	(11.1%)

In the consolidated fiscal year ended March 31, 2012, Japan's economy underwent a moderate recovery from the earthquake in Eastern Japan, which triggered a sudden drop in both production and consumer sentiment. However, an uncertain economic outlook continued to prevail in the face of the European debt crises, unpredictable foreign exchange movements, and the clouded outlook for the U.S. economy.

In the mobile phone sales market, the share of smartphone sales advanced rapidly, as mobile network operators enhanced their smartphone lines and rolled out aggressive marketing promotions. In addition to smartphone sales, higher demand for tablets and other data communication devices also contributed to the growth of the overall sales market.

In this operating environment, the NEC Mobiling Group, which consists of NEC Mobiling and its consolidated subsidiaries ("the Company"), redoubled its efforts to improve the service quality offered to customers at shops and to actively capture replacement demand by encouraging a shift to handsets with advanced functions, such as smartphones. To cope with diminishing demand for maintenance services caused by growing consumer appetite to replace handsets rather than to have them repaired, the Company undertook actions aimed at cost reductions and improved operational efficiency.

As a result of the foregoing, the Company posted net sales of ¥126,084 million (up 0.4% year-on-year) in the period under review. Despite lower demand for maintenance services and the falling per-unit retail price of handsets induced by the lower per-unit cost of handsets, sales grew on the back of a 15% increase in unit sales to 1.65 million units.

Profits were boosted by the higher number of handsets sold, greater sales of accessories and related merchandise, efforts to slash costs, and improved operational efficiency achieved through the enhanced staff assessment system designed to better motivate employees. Operating income rose 8.6% to ¥10,438 million, and ordinary income grew 8.1% to ¥10,613 million. Net income came in at ¥4,888 million, or down 11.1% on a year-on-year basis. The decrease was attributable primarily to the posting of valuation loss on investment securities and the income tax hike subsequent to the revision of related laws.



## ii) Segment Overview

### (a) Mobile Sales Business

Consolidated operating results for the fiscal year ended March 31, 2012 (in millions of yen)

	Fiscal Year ended March 31, 2011	Fiscal Year ended March 31, 2012	YoY (%)
Net Sales	90,342	95,513	5.7%
Operating Income	3,455	4,673	35.3%

The consolidated fiscal year under review saw stepped-up efforts by mobile network operators to enhance their lines of mobile devices, including smartphones, tablets, digital photo frames, and devices with Wi-Fi connectivity. The sales market for smartphones continued to grow, as manufacturers rolled out smartphones enhanced with the features and capabilities that are available on conventional handsets and which are extremely popular in Japan, including e-wallet and water resistance. Additional momentum was created by the accelerated release of smartphones by overseas manufacturers and the debut of smartphones compatible with LTE (long-term evolution) service, in addition to aggressive marketing promotions by the mobile network operators.

In this operating environment, the Company geared up sales efforts for smartphones and other handsets with advanced functions by introducing a variety of measures aimed at improved customer service quality, including the launch of "AND market Kasumigaseki" (a shop dedicated to smartphones), the Smartphone Concierge Service (Note 1) and the Visual Concierge Service (Note 2). These efforts were translated into a 15% increase in the unit sales of handsets from a year ago, to 1.65 million units. Such actions were further supplemented by greater sales initiatives to sell accessories and related merchandise, including smartphone cases and SD cards.

Net sales generated by this business amounted to ¥95,513 million, or up 5.7% year-on-year. Operating income rose 35.3% to ¥4,673 million, reflecting the stronger sales of mobile phones and related accessories/merchandise, greater actions by individual shops to improve profits, and other measures aimed at higher operational efficiency.

(Note 1) Smartphone Concierge Service: Assistance provided to customers for the initial setup of a smartphone

(Note 2) Visual Concierge Service: Customer support and assistance provided via videophone

### (b) Mobile Service Business

Consolidated operating results for the fiscal year ended March 31, 2012 (in millions of yen)

	Fiscal Year ended March 31, 2011	Fiscal Year ended March 31, 2012	YoY (%)
Net Sales	35,278	30,571	(13.3%)
Operating Income	6,153	5,765	(6.3%)

While replacement demand continued to grow, which was caused by the aggressive promotional efforts for smartphones by mobile network operators and the falling per-unit retail price of smartphones, the demand for maintenance services diminished in the period under review. However, the demand related to mobile communications base station systems was sustained by mobile network operator initiatives to improve their network quality and to enhance their networks to accommodate the growing number of smartphone users.

As a result, the business recorded net sales of ¥30,571 million (down 13.3% year-on-year). Operating income decreased 6.3% to ¥5,765 million, supported by the Company's efforts to offset diminishing demand for repairs by incorporating greater operational efficiency such as cost reductions through better repair technology and efforts to gain maintenance business wins for handsets manufactured overseas.

## **(2) Cash flows**

Cash and cash equivalents ("cash") stood at ¥27,699 million as of March 31, 2012, up ¥4,459 million from a year earlier.

### **Cash flows from operating activities**

Cash flows provided by operating activities during the fiscal year under review totaled ¥6,847 million. It was 23.2% more than the inflow posted in the previous fiscal year.

The inflow was mainly attributable to cash-increasing factors such as the posting of net income before income taxes, valuation loss on investment securities, and an increase in accrued expenses, which exceeded cash-decreasing factors such as an increase in accounts receivable - others and income tax payments.

Compared with the previous fiscal year, the net income before taxes decreased, but an increase in non-cash items, such as valuation loss on investment securities and changes in assets and liabilities, resulted in the inflow—which was ¥1,291 million more than the inflow posted in the previous fiscal year.

### **Cash flows from investing activities**

Cash used by investing activities amounted to ¥718 million. It was 49.4% less than the outflow posted in the previous consolidated fiscal year.

The cash outflow primarily represented disbursements linked to the purchase of property, plants, and equipment.

The outflow in the fiscal year under review was ¥700 million less than the outflow recorded in the previous fiscal year. The difference was attributable to proceeds from the sales of property, plants, and equipment recorded in the fiscal year under review and the disbursements for the acquisition of the stocks of subsidiaries posted in the previous year.

### **Cash flows from financing activities**

Cash used by financing activities amounted to ¥1,670 million. It was 12.6% more than the outflow recorded in the previous fiscal year.

The outflow was attributable primarily to the payments of the end-of-year dividends for the fiscal year ended March 31, 2011 and the interim dividends for the fiscal year under review.

The outflow was ¥186 million more than the outflow recorded in the previous fiscal year, due primarily to an increase in the per-share dividends declared.

## 2. Sales

The previous fiscal year was the first fiscal year for reporting consolidated results as the Group and the deemed acquisition date of the consolidated subsidiary fell on the last day of the fiscal year. Therefore, only the balance sheet was consolidated in the previous fiscal year and year-on-year comparisons have not been performed.

### Sales Results

The sales results for the fiscal year under review for each segment are as follows:

Segment	Fiscal year ended March 31, 2012 (April 1, 2011 to March 31, 2012)	
	Amount (Millions of yen)	Year-on-year change (%)
Mobile Sales Business	95,513	105.7
Mobile Service Business	30,571	86.7
Total	126,084	100.4

(Notes) 1. The above amounts do not include consumption taxes.

2. The sales results and their shares of total sales by major customers in the previous fiscal year and the current fiscal year are as follows:

Major customer	(Consolidated) FY ended March 31, 2012 (April 1, 2011 to March 31, 2012)	
	Amount (Millions of yen)	Share (%)
NTT DOCOMO, Inc.	30,775	24.4
NEC CASIO Mobile Communications, Ltd	12,719	10.1
NEC Corporation	11,554	9.2

(Note) The above amounts do not include consumption taxes.

## 3. Issues to be addressed

Japan's mobile telecommunication market has grown by incorporating global cutting-edge technologies in succession, and along the way, it has played a key role in the advancement of an information and communication society as symbolized by the Internet.

One conspicuous trend today is faster-than-anticipated inroads into the market made by smartphones. In addition, high-speed networks such as LTE and Wi-Fi networks, as well as new services, are also expected to grow at an accelerated pace, as ICT finds more applications in society.

NEC Mobiling strives to re-invent, on an ongoing basis, the support and assistance extended to its customers, such as advice on mobile Internet utilization tailored to individual lifestyle requirements and others, in an effort to make the mobile life of customers more convenient and pleasant. It also aims to expand its business by seeking new sources of income, including sales of related merchandise and products and services related to ICT utilization, and through the launch of a diverse range of shops in cooperation with its sales partners. In addition, the Company is redoubling efforts to capture the growing needs of network operators for network enhancements in response to rising smartphone numbers. It is also broadening its business domains by exploring opportunities in maintenance-related businesses for handsets made by overseas manufacturers, among others.

NEC Mobiling takes full advantage of its dual strength of technical expertise and a solid sales platform in order to build, on a daily basis, the powerful structure needed to respond quickly to customer needs for next-generation mobile communication services. Through its business growth, every attempt will be made to achieve further advances in business, improve earnings, and maximize shareholder value.

## 4. Business and related risks

The following is a summary of the significant potential risks to the Group's operations. From the viewpoint of information disclosure to investors, they include items that are not necessarily fall under operational risks but deemed important to investors in their decision-making process.

From the fiscal year starting April 1, 2012, the business segment has been changed. The "Mobile Service Business" has been changed to the "Mobile Solution Business," combined with the mobile handset sales for enterprise related business, which was formerly included in the "Mobile Sales Business."

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.

### (1) Relationship with the NEC Group

As of March 31, 2012, NEC Corporation is the parent company owning 51.00% of the Company's outstanding shares. Its relationship with the Company is as follows:

#### 1) Position within the NEC Group

The Company belongs to the NEC Group, a corporate group headed by NEC Corporation, the parent company. The NEC Group's domestic and overseas business include the "IT Services Business," "Platform Business," "Carrier Network Business," "Social Infrastructure Business," and "Personal Solutions Business." Among these, the Company belongs to the "Personal Solutions Business" and is in charge of operations relating to the communications equipment field, particularly mobile communications typified by mobile phones.

#### 2) Personal relationship

- Concurrent positions held by directors and corporate auditors

Of the Company's 11 directors and corporate auditors, two were concurrently serving as employees of NEC Corporation as of March 31, 2012. Their names and positions in the Company and the parent company are as follows.

The Company invited their appointments based on the judgment that they could contribute to the management of the Company through their knowledge, experience and overall abilities.

Director (non-standing)	Hajime Matsukura	(General Manager of Corporate Strategy and Business Development Division)
Corporate Auditor (non-standing)	Koki Kawakami	(General Manager of Personal Solution Planning Division)

- Acceptance of employees

As of March 31, 2012, among the 1,066 employees of the Company, 34 were seconded from NEC Corporation, and accepted by the Company out of necessity. 11 were placed in the "Mobile Sales Business," 12 in the "Mobile Service Business" and 11 in "common sections." The seconded employees were practically working full-time in the Company's operations. As the need arises, the Company may consider hiring these employees directly. At the same time, however, as the Company's own personnel grow in competence and expertise, the need to bring seconded employees from outside is diminishing. The Company intends to restrict the acceptance of such employees to an absolute minimum in the future. The acceptance of employees from outside will not pose an obstacle to the stable operation of the Company's business.

#### 3) Business relationship

- Sales dependence

The bulk of the businesses performed by the “Mobile Service Business” come from the NEC Group as consignment. Therefore, these are accounted for as net sales to the NEC Group.

In the fiscal year ended March 31, 2011, net sales to NEC Corporation was ¥25,128 million accounting for 20.0% of the total net sales. In the fiscal year ended March 31, 2012, net sales to NEC Corporation was ¥11,554 million accounting for 9.2% of the total net sales and net sales to NEC CASIO Mobile Communications was ¥12,719 million accounting for 10.1% of the net sales. (During the fiscal year under review, the customer for maintenance service for mobile communication handsets has changed to NEC CASIO Mobile Communications from NEC Corporation due to the change in contract.) Therefore, any change in the NEC Group’s business policies or in the Company’s standing within the NEC Group could consequently affect the Company’s operating results. Regarding these sales transactions, estimates are submitted for every business on the basis of which negotiations take place and contract prices are determined, which is the same as under general business conditions.

• Business relationship with the NEC Group

The major transactions between the Company and NEC Corporation or its subsidiaries during the fiscal year under review are as follows:

Transactions with NEC Corporation

Type	Company name	Location	Capital or investments (Millions of yen)	Principal operations	Possession [possessed] ratio of voting rights	Relationship of related party	Nature of transactions	Transaction amount (Millions of yen)	Accounts	Balance at the end of FY (Millions of yen)
Parent company	NEC Corporation	Minato-ku, Tokyo	397,199	Manufacture and sales of computers, communications equipment and software as well as provision of related services	Owned directly: 51.00%	Contracting of installation and maintenance services for mobile communications equipment, etc.	Contracting of installation and maintenance services for mobile communications equipment, etc.	11,554	Accounts receivable - trade	318
							Deposits of fund	0	Deposit paid in subsidiaries and affiliates	9,000
							Interest income	35		

Transactions with subsidiaries of NEC Corporation

Type	Company name	Location	Capital or investments (Millions of yen)	Principal operations	Possession [possessed] ratio of voting rights	Relationship of related party	Nature of transactions	Transaction amount (Millions of yen)	Accounts	Balance at the end of FY (Millions of yen)
Company which has the same parent company	NEC CASIO Mobile Communications, Ltd.	Kawasaki-shi, Kanagawa	5,000	Product planning, development, production, sales and maintenance of mobile communications equipment	None	Contracting of maintenance services for mobile communications equipment, etc. Interlocking directors	Contracting of maintenance services for mobile communications equipment	12,719	Accounts receivable - trade	3,479
							Procurement of parts and components for maintenance	3,350	Accounts payable - trade	-
Company which has the same parent company	NEC Saitama, Ltd.	Kamikawamachi, Kodama-gun, Saitama	200	Development, design, manufacture and sales of mobile communications equipment and related equipment	None	Procurement of parts and components for maintenance of mobile communications equipment, etc.	Procurement of parts and components for maintenance	3,147	Accounts payable - trade	0
Company which has the same parent company	NEC Facilities, Ltd.	Minato-ku, Tokyo	240	Design of construction and environmental systems, etc., construction management, building maintenance and repairs and facility management as well as insurance agency and real estate management	None	Building rental, etc.	Building rental	2,460	Lease and guarantee deposits	684
							Payment of deposits	379		

- (Notes) 1. Above transaction amounts do not include consumption taxes except balance at the end of the fiscal year in accounts receivable - trade and accounts payable - trade.
2. Conditions of transaction and transaction policies
- 1) Regarding contracting of installation and maintenance services for mobile communications equipment, estimates are submitted for every business on the basis of which negotiations take place and contract prices are determined, which is the same as under general business conditions.
  - 2) Procurement prices of parts and components for maintenance are determined by price negotiation based upon the

- quoted price.
- 3) Building rental fee is determined based on market prices.
  - 4) Interest rate on deposits of fund is determined by taking the market rates into consideration.

- License for the use of marks

The Company is licensed to use the “NEC” marks. If the Company loses the right to use “NEC” brand marks, or if the “NEC” brand declines in credibility or prestige, this could have an impact on the Company’s operating results.

## (2) “Mobile Sales Business”

The “Mobile Sales Business” accounted for 71.9% and 75.8% of the Company’s net sales in the fiscal years ended March 31, 2011 and March 31, 2012, respectively. As its principal operations, the Company is engaged in subscriptions for mobile phone and other related services, selling communications terminals and providing subscriber-related support services such as repairs and user fee collection, in its role as a primary distributor for mobile network operators such as NTT DOCOMO. To achieve its business objectives, the Company undertakes activities including the operation of direct-sales shops across the country, primarily DOCOMO shops, and partner shops under third-party agreements between mobile network operators, the Company and secondary distributors, as well as the organization of sales channels.

As of March 31, 2012, the Company operated 236 shops nationwide (125 direct-sales shops and 111 partner shops).

(\*) The 125 direct-sales shops include those operated by Matsuhaya Corporation.

### 1) Sales of mobile communications terminals

In the sales of mobile communications terminals, although sales are effected at the price below the procurement price, commissions from mobile network operators are received for mobile communications service contracts concluded at the same time as terminals sales. This commission income enables profitable operation, even when selling terminals at the price below the procurement price.

### 2) Commissions, etc. from mobile network operators

The Company receives commissions from mobile network operators as consideration for subscription agreements concluded for mobile communications services provided by mobile network operators.

Terms of transactions, etc., such as the amount of commissions, etc., payment periods, services subject to payments and percentage against call charge, etc. among others, change in accordance with business policies etc., of mobile network operators. Any major change in terms of transactions could have a significant impact on the Company’s operating results.

The commissions, etc. received from mobile network operators over the past two years are as follows:

		Fiscal year ended March 31, 2012	
Item	Accounting segmentation	Amount (Millions of yen)	Composition (%)
Commissions received	Net sales	31,465	40.6
Incentives received	Cost of sales (deduction)	45,996	59.4
Total		77,461	100.0

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

Handling commissions: Commissions received for services such as new subscriber agreements, switching of mobile phone models for existing subscribers, various service changes and repairs, etc., rendered on behalf of

	mobile network operators.
Stock commissions:	Commissions continuously received for a certain period of time in accordance with the number of line subscriptions intermediated, the number of customers served for after-purchase servicing and the amount of call charges.
Incentives:	Incentives received in accordance with mobile phone models and the number of mobile phones sold.

- (\*) In the sales of mobile communications terminals, while sales are effected at the price below the procurement price, it is believed that mobile network operators adjust procurement prices with a portion of commissions instead of lowering wholesale prices (procurement prices for distributor agents). Because of this, the Company considers incentives received as procurement price reductions on products, therefore it is recognized as deduction item of cost of sales, not net sales.

### 3) Refund of commissions etc. by mobile network operator

When a mobile communications terminal user enters into a subscription agreement with a mobile network operator for a mobile communications service at a shop but cancels the agreement within a certain period, it is agreed in a distributorship agreement between the Company and a mobile network operator to refund a portion of commissions etc. paid by the mobile network operator upon the conclusion of the subscription agreement.

### 4) Competition in the industry

As mobile network operators accelerate their move towards high-end models, the number of subscribers of mobile phones in Japan increased significantly to 124.19million as of March 31, 2012. However, as the penetration rate increases, the number of new users is expected not to increase greatly. We believe the level of competition among distributors including the Company will intensify in much the same way as the competition between mobile network operators for gaining more mobile phone users.

The mobile communications market is thus very competitive and any decrease in profit margin resulting from the intensification of the competition may affect the Company's operating results.

### 5) Shop opening policy

The Company's shop opening plans are based on the regional sales strategies of the mobile network operators with which the Company entered into distributorship agreement. Shop openings involve the selection on the part of mobile network operators of primary distributors from among multiple candidates including the Company based on an examination of shop opening plans. Closures are also determined upon consultation with mobile network operators.

For shop development, it is the policy of the Company to re-examine, as needed, the marketability, competition environment, profitability and other factors in areas where shops are to be opened, as well as to expand and revise its sales channels. However, this policy may not proceed as planned due to mobile network operators' shop opening policies and other policies, etc.

### 6) Future business expansion through M&A, etc.

To expand its Mobile Sales Business, the Company may invest in or acquire other companies in the same business or mobile sales businesses of such companies, and the purchase of such companies etc. could affect the Company's operating results. Depending on how the market evolves or on how the economy changes, the Company may not be able to generate the payoffs it initially hoped to realize. Poor operating results by the acquired companies or businesses may also prevent the invested capital to be recovered. Either outcome could affect both the Company's operating results and its business plans.

### 7) Ministry of Internal Affairs and Communications (MIC)'s competition policy

The abolishment of SIM (Subscriber Identity Module) lock and other trends such as the promotion of new participation by MVNO (mobile virtual network operators) described in the "Mobile Business Revitalization Plan" announced by the MIC in 2007 could affect the sales and rate strategies of

mobile network operators, which could, in turn, impact the Company's operating results.

The Company conducts sales and sales channel strategies that reflect the policies and strategies of mobile network operators. As a result of new subscription schemes, the increasing variety of network services, and rising functional sophistication of terminals, it is becoming increasingly important to train staff at stores in the skills of appropriately explaining and introducing products and services to customers. Heading towards the raising of staff skills and the acquisition of accredited qualifications from mobile network operators, the Company is striving to further enhance its support system for training etc.

#### 8) Legal restrictions, etc.

Distributorship operations of mobile network operators are subject to the "Telecommunications Business Act," "Antimonopoly Act" (the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade), "Premiums and Representations Act" (Act against Unjustifiable Premiums and Misleading Representations), "Act on Specified Commercial Transactions," "Consumer Contract Act," "Act for Worker Dispatching and Dispatched Workers" (Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers) and "Personal Information Protection Act." 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. The Group adheres to all relevant laws and regulations when conducting sales operations.

Due to the very nature of its operations, the Company handles personal information of countless customers. The Company follows the regulations and manuals of mobile network operators and, as part of its company-wide personal information protection management system, formulates a wide spectrum of rules from basic regulations to detailed regulations and manuals, and safety guidelines, and a director of the Company is appointed as "Personal Information Protection Officer." Periodical training and information sharing sessions are conducted together with the implementation of management cycles such as management reviews and personal information review.

As a result of undertaking such measures, the Company received recognition for its conformity with JIS Q15001 from Japan Information Processing Development Corporation (JIPDEC). We were one of the first in the industry to obtain the PrivacyMark for the mobile phone business field.

Despite the best efforts of the Company to implement measures such as above, leaks and other unauthorized use of personal information may occur. In such event, the Company could be liable for damages, which could affect its operating results.



### **(3) Relationship with NTT DOCOMO**

#### 1) Sales and procurement dependence

As of March 31, 2012, the Company operated 236 shops in its “Mobile Sales Business,” of which 228 were “DOCOMO shops.” Consequently, in terms of sales, the ratio of DOCOMO brand mobile phones is high.

Regarding procurement, 78.5% of total products procured for “mobile phone sales” in the “Mobile Sales Business” in the fiscal year ended March 31, 2011, which amounted to ¥61,593 million or 95.2% of total procurement, were from NTT DOCOMO. For the fiscal year ended March 31, 2012, the procurement from NTT DOCOMO amounted to ¥65,714 million, representing 94.8% of total products procured for “mobile phone sales” in the “Mobile Sales Business” or 82.9% of the total corporate procurement.

The Company’s operating results could consequently be affected by procurement-related conditions set by NTT DOCOMO or trends of the commissions, etc. of NTT DOCOMO, the market’s reactions to NTT DOCOMO’s new products and services, or by NTT DOCOMO’s competitive position vis-à-vis other mobile network operators.

#### 2) Distributorship agreements

The Company’s “DOCOMO shops” in the “Mobile Sales Business” are operated on the basis of distributorship agreements with NTT DOCOMO. These agreements are automatically renewed each year, but because they are subject to cancellation following advance notice at any time by NTT DOCOMO, there is a risk of cancellation of a distributorship agreement even during the term of the agreement.

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 and if NTT DOCOMO determines that the Company is no longer able to maintain sincere commitment in performing the business activities. Cancellation of a distributorship agreement with NTT DOCOMO could undermine the Company’s ability to operate its business.

#### 3) Shop development

DOCOMO shops are sales and service stations that carry the brand of a mobile network operator. In principle, the Group conducts store openings based on the strategy of NTT DOCOMO. Accordingly, the location and scale of shop development and the business format (shop trading hours and holiday calendar etc.) are decided in agreement with NTT DOCOMO. In addition, as there are frequent cases when the location of shop development and the operating distributor agent are strategically selected, it is sometimes required that shops are relocated or expanded.

As described above, because the shop development of DOCOMO shops, which makes up a majority of shop development, is often swayed by the strategies and policies of NTT DOCOMO, the operating results of the Company may be impacted by the strategies and policies of NTT DOCOMO.

### **(4) “Mobile Service Business”**

The Company’s Mobile Service Business accounted for 28.1% and 24.2% of the Company’s net sales in the fiscal years ended March 31, 2011 and March 31, 2012, respectively. This business involves the provision of construction, integration and maintenance services for mobile communications systems.

#### 1) Effects of the trends of capital investment for base station facilities of mobile network operators

In the “Mobile Service Business,” the Company provides system engineering for mobile communications systems such as mobile communications base station systems owned by mobile network operators.

Therefore, the Company’s operating results could consequently be affected by the trends of capital investment for the base station facilities of mobile network operators.

## 2) Legal regulations

The “Mobile Service Business” involves the installation works, etc. of mobile communications base station facilities owned by mobile network operators, therefore the Company is subject to the “Construction Business Act.” The Company also takes environmental issues into consideration when effecting such installations.

Maintenance services for mobile communications terminals are subject to the “Electrical Appliance and Material Safety Law.”

## **(5) Securement and development of human resources**

In a business environment characterized by a rapid flow of new products and services generated by constant advances in technology, the Company must be able to hire employees who possess a wide range of capabilities and skills in marketing and other areas to ensure its ability to attract new customers and expand its sales channels. The securement and development of such human resources is essential for the future strength of our operating base, therefore, in addition to the periodical hiring of new graduates, we are also recruiting experienced mid-career professionals throughout the year. The Company endeavors to sharpen the skills of newly hired employees through on-the-job training, educational courses and other post-hiring programs.

However, if the Company is unable to hire and train the kind of human resources it seeks or if it is unable to secure human resources it requires to support business expansion, which results in reductions in work efficiency, it could affect the Company’s operating results.

## **5. Important Business Contracts etc.**

### **(1) Distributorship agreement with mobile network operators**

- 1) The Company has entered into agreement with NTT DOCOMO to perform business on consignment related to store operations and subscriptions to mobile communications services and to be distributor agents in relation to the sale of mobile communications terminals and related products.
- 2) The Company has entered into agreement with KDDI Corporation and SOFTBANK MOBILE Corp. to perform business on consignment related to subscriptions to mobile communications services and to be distributor agents in relation to the sale of mobile communications terminals.

### **(2) Contracts with shops**

The company has entered into contracts with about 300 shops nationwide for those shops to perform business on a subcontracting basis related to the subscriptions to mobile communications services of mobile network operators.

### **(3) Contracts with NEC Corporation**

- 1) The Company has entered into contracts with NEC Corporation to perform maintenance services on consignment related to mobile communications terminals manufactured by NEC Corporation.
- 2) The Company has entered into licensing agreements with NEC Corporation related to the use of the “NEC” part of the Company’s name and the use of the “NEC” trademark.
- 3) The Company has entered into patent sub-licensing agreements with NEC Corporation to be allowed use of patents of certain valuable companies based on contracts that NEC Corporation has entered into with said valuable companies, and to grant NEC Corporation the authority to allow said valuable companies to use patents owned by the Company.

## **6. Research and Development Activities**

In the fiscal year under review, the Company conducted research and development to cultivate new businesses in the Mobile Sales Business focused on the use of ICT in homes.

Research and development expenses in the fiscal year under review amounted to ¥12 million.

### III. Facilities

#### 1. Outline of capital investments, etc.

The Group used ¥667 million on capital investments during the fiscal year under review, mainly for for shop relocations and renovations in the Mobile Sales Business. These investments broke down as follows: ¥414 million for buildings and structures; ¥156 million for tools, furniture and fixtures; and ¥89 million for software.

There were no significant disposals or sales of facilities during the fiscal year under review.

#### 2. Plan for installation and disposal, etc. of facilities

The Company's capital investment plans comprehensively consider economic forecasts, industry trends, forecasted earnings, returns on investment, etc. The investment plan for major facilities is to spend ¥1,000 million before March 2013 on the following. The Company plans to use own funds to finance such capital investments.

Information by business segment and on capacity increase after completion is omitted due measurement difficulties.

Office (Location)	Name of business segment	Contents of facilities	Planned investment amount		Fund procurement	Commencement date and planned completion date	
			Total amount (Millions of yen)	Amount already spent (Millions of yen)		Commencement	Completion
Head office (Chiyoda-ku, Tokyo)	Other	Operation management systems, etc.	200	–	Own funds	April 2012	March 2013
Kanto Koshinetsu area	Mobile Sales Business	Opening, relocation and renovation of shops, etc.	400	–	Own funds	April 2012	March 2013
Kanto Koshinetsu area	Mobile Service Business	Maintenance facilities, etc.	400	–	Own funds	April 2012	March 2013
Total			1,000	–	–	–	–

(Notes) 1. The above figures do not include consumption taxes.

2. There are no plans for repairs or disposals of important facilities except for those for the purpose of regular renewal of facilities.

## IV. Filing company

### 1. Information on the Company's shares

#### (1) Total number of shares authorized, etc.

##### 1) Total number of shares authorized

Class	Total number of shares authorized (Share)
Common stock	48,000,000
Total	48,000,000

##### 2) Number of shares issued

Class	Number of shares issued (as of March 31, 2011)	Number of shares issued (as of the date of filing: June 21, 2011)	Name of financial instruments exchange where the stock of the Company is traded or the name of authorized financial instruments firms association where the Company is registered	Details
Common stock	14,529,400	Same as left	Tokyo Stock Exchange (First Section)	Trading unit: 100 shares
Total	14,529,400	Same as left	–	–

#### (2) New share subscription rights

Not applicable

#### (3) Exercise of bond certificates with subscription rights to shares with exercise price revision clause

Not applicable

#### (4) Contents of rights plan

Not applicable

#### (5) Trends in total number of shares issued, capital stock, etc.

Date	Fluctuation in the number of shares issued (Share)	Balance of total number of shares issued (Share)	Fluctuation in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Fluctuation in legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
February 22, 2002 (Note)	2,250,000	14,529,400	1,436	2,371	2,372	2,707

(Note) Public offering using the book-building formula

Issue price: ¥1,800

Amount incorporated into capital: ¥638

## (6) Shareholder composition

As of March 31, 2012

Category	Shareholder composition (trading unit: 100 shares)								Shares less than one unit (Share)
	Public sector	Financial institutions	Financial instruments business operators	Other corporations	Foreign investors, etc.		Individuals, etc.	Total	
					Companies, etc.	Individuals			
Number of shareholders (Person)	–	27	29	55	137	1	5,896	6,145	–
Number of shares held (Trading unit)	–	20,295	1,582	78,066	23,470	1	21,858	145,272	2,200
Ownership ratio of shares (%)	–	13.97	1.09	53.73	16.16	0.00	15.05	100.00	–

(Note) 70 shares of treasury stock are included in the “Shares less than one unit.”

## (7) Status of major shareholders

As of March 31, 2012

Name of shareholders	Address	Number of shares held (Thousands of shares)	Ownership ratio of shares to the total number of shares issued (%)
NEC Corporation	7-1, Shiba 5-chome, Minato-ku, Tokyo	7,410	51.00
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	778	5.35
MELLON BANK, N.A. TREATY CLIENT OMNIBUS (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	ONE MELLON BANK CENTER, PITTSBURGH, PENNSYLVANIA (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo)	511	3.52
Japan Trustee Services Bank, Ltd. (Trust Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	463	3.19
HIKARI TSUSHIN, INC.	16-15, Minami-Ikebukuro 1-chome, Toshima-ku, Tokyo	306	2.11
BBH FOR FIDELITY LOW-PRICED STOCK FUND (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	40 WATER STREET, BOSTON MA 02109 U.S.A. (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo)	300	2.06
NEC Mobiling Employees' Stockholding Association	Kasumigaseki Building 6th floor, 2-5, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo	220	1.51
RBC DEXIA INVESTOR SERVICES BANK A/C DUB NON RESIDENT/DOMESTIC RATE (Standard Chartered Bank)	14, PORTE DE FRANCE, L-4360 ESCH-SUR-ALZETTE GRAND DUCHY OF LUXEMBOURG (Sanno Park Tower 21st floor, 11-1, Nagata-cho 2-chome, Chiyoda-ku, Tokyo)	109	0.76
MELLON BANK N.A. AGENT FOT ITS CLIENT MELLON OMNIBUS US PENSION	ONE BOSTON PLACE BOSTON, MA 02108	108	0.74
Japan Trustee Services Bank, Ltd. (Trust Account 9)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	107	0.74
Total	–	10,314	70.99

(Notes) 1. Number of shares held is presented after rounding off amounts less than 1,000 shares.

## 2. Dividend policy

The Company's policy is to maintain stable payouts, while considering a payout ratio of around 30%. This reflects its commitment to place high priority to respect and focus on shareholders as well as ensuring ample retained earnings to strengthen its operating bases and expand its business.

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

The decision-making body with respect to dividends from surplus is the Board of Directors. The Company has stipulated in its Articles of Incorporation that "in accordance with Article 459-1 of the Companies Act, the Company may pay dividends from surplus based on a resolution of the Board of Directors without a resolution of a General Meeting of Shareholders."

The Company has also stipulated in its Articles of Incorporation that the record dates for dividends from surplus 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 above policy, the Company paid the dividend of ¥120 per share (of which, ¥60 was paid as an interim dividend) for the fiscal year under review.

With respect to the use of retained earnings, the Company's policy is to invest in the following areas: expansion into new fields where future development is expected; developing sales channels; quality control; and personnel training and development.

The dividend for the fiscal year under review is as follows:

Resolution date	Total amount of dividends (Millions of yen)	Dividends per share (Yen)
Board of Directors meeting held on October 25,2011	872	60.00
Board of Directors meeting held on April 25,2012	872	60.00

### 3. Status of directors and corporate auditors

Position	Title	Name	Date of birth	Career summary	Term of office	Number of shares held (Share)
Representative Director	President	Koji Yamasaki	April 1, 1952	April 1972 May 2011 June 2011 Joined NEC Corporation Joined the Company President of the Company (present)	Note 3	700
Member of the Board	Senior Vice President	Masaru Nagashima	May 26, 1953	April 1977 June 2008 April 2011 Joined NEC Corporation Joined the Company Member of the Board and Senior Vice President of the Company (present)	Note 3	1,200
Member of the Board	Senior Vice President	Kazuhito Kojima	July 6, 1954	April 1979 November 2003 April 2011 Joined NEC Corporation Joined the Company Member of the Board and Senior Vice President of the Company (present)	Note 3	700
Member of the Board	Associate Senior Vice President	Shuji Niwano	March 24, 1955	April 1977 May 2007 June 2009 Joined NEC Corporation Joined the Company Member of the Board and Associate Senior Vice President of the Company (present)	Note 3	1,100
Member of the Board	Associate Senior Vice President	Masato Nakai	July 14, 1955	April 1979 June 2011 Joined NEC Corporation Joined the Company, Member of the Board and Associate Senior Vice President of the Company (present)	Note 3	100
Member of the Board		Keita Satoh	December 15, 1957	April 2007 October 2008 June 2010 June 2010 Executive Vice President of TOMY COMPANY, LTD. (present) President & CEO of YUJIN Company, Ltd. (currently T-ARTS Company, Ltd.) (present) President & CEO of TATSUNOKO PRODUCTION Co., Ltd. (present) Member of the Board of the Company (present)	Note 3	–



Position	Title	Name	Date of birth	Career summary		Term of office	Number of shares held (Share)
Member of the Board		Hajime Matsukura	December 12, 1961	April 1985 April 2008 June 2010	Joined NEC Corporation General Manager of Corporate Planning Division of NEC Corporation (present) Member of the Board of the Company (present)	Note 3	–
Member of the Board		Yutaka Watanabe	July 15, 1945	June 2011 June 2012	Advisor of Sumitomo Osaka Cement Co.,Ltd. (present) Member of the Board of the Company (present)	Note 3	–
Member of the Board		Hajime Kinoshita	August 2, 1957	April 1982 April 2008 June 2012	Joined NEC Corporation General Manager of Legal Division of NEC Corporation (present) Member of the Board of the Company (present)	Note 3	–
Standing Corporate Auditor		Tetsuo Tanaka	January 9, 1955	April 1977 December 2004 June 2012	Joined NEC Corporation Joined the Company Corporate Auditor of the Company (present)	Note 4	300
Standing Corporate Auditor		Masayoshi Kyogoku	January 18, 1956	April 1978 June 2012	Joined NEC Corporation Corporate Auditor of the Company (present)	Note 4	–
Corporate Auditor		Fukutaka Hashimoto	July 6, 1954	April 1979 June 2010 April 2012	Registered as attorney Corporate Auditor of the Company (present) Daini Tokyp Bar Association President (present) Japan Federation of Bar Associations Vice President (present)	Note 5	–
Corporate Auditor		Koki Kawakami	October 22, 1956	April 1980 October 2007 June 2010	Joined NEC Corporation General Manager of Personal Solution Planning Division of NEC Corporation (present) Corporate Auditor of the Company (present)	Note 5	–
Total							4,100

(Notes) 1. Directors Keita Satoh, Hajime Matsukura, Yutaka Watanabe, and Hajime Kinoshita are outside directors provided for by Article 2, item 15 of the Companies Act.

2. Corporate auditors Masayoshi Kyogoku, Fukutaka Hashimoto and Koki Kawakami are outside corporate auditors provided for by Article 2, item 16 of the Companies Act.

3. For one year from the conclusion of Ordinary General Meeting of Shareholders held on June 19, 2012.

4. For four years from the conclusion of Ordinary General Meeting of Shareholders held on June 19, 2012.

5. For four years from the conclusion of Ordinary General Meeting of Shareholders held on June 18, 2010.

6. Corporate officers of the Company are as follows:

President	Koji Yamasaki
Senior Vice President	Masaru Nagashima
Senior Vice President	Kazuhito Kojima
Associate Senior Vice President	Shuji Niwano
Associate Senior Vice President	Masato Nakai
Associate Senior Vice President	Kazuhito Okue
Associate Senior Vice President	Nobuyuki Sakai
Associate Senior Vice President	Hiroshi Morimitsu
Associate Senior Vice President	Yuichi Nakajima
Associate Senior Vice President	Akihiro Mizutani

## 4. Status of corporate governance, etc.

### (1) Status of corporate governance

#### 1) Basic views on corporate governance

The Company recognizes that enhancing the corporate governance is an important challenge in order to enhancing corporate value. Achieving this depends critically on the protecting the rights of shareholders, awareness of corporate social responsibility and management supervision. To protect shareholders' rights, the Company considers it necessary to develop an environment that facilitates their participation in General Meetings of Shareholders through such means as holding of meetings at an early date, notification of the convocation through the Internet, exercise of voting rights through the Internet, and sending out hard copies of convocations well in advance. With respect to corporate social responsibility, the Company recognizes that it must improve transparency by improving the compliance system and developing systems that enable timely disclosure of information as a listed company. Regarding management monitoring, the Company believes that the performance of supervisory and monitoring functions by the Board of Directors, corporate auditors and the Board of Corporate Auditors in accordance with their respective roles provides assurance of effective execution of business operations, compliance with relevant laws and regulations and reliability of accounting practices. The Company will strengthen its corporate governance through the implementation of the above measures.

#### 2) Implementation status of measures concerning corporate governance

##### (a) Overview of the Company's corporate governance structure and other matters regarding corporate governance

###### a. Overview of corporate bodies and status of internal control system

The Company adopted the corporate auditor system of corporate governance.

The Company's Board of Directors as of June 19, 2012, consisted of nine members. Out of that four are outside directors, and for two of the outside directors, notification has been filed with the Tokyo Stock Exchange that the directors are independent officer with no risk of conflict of interest with general shareholders as stipulated by the Tokyo Stock Exchange where the Company's stock is listed (hereinafter "independent officer").

The Board of directors holds regular meetings once a month, in principle, and extraordinary meetings as necessary to determine important matters related to business execution, as well as matters specified by laws and regulations and article of incorporation.

The Company's corporate auditors as of June 19, 2012, consisted of four members. Out of that three are outside auditors and for one of the outside auditor, notification has been filed with the Tokyo Stock Exchange that the auditor is an independent officer.

The Board of Corporate auditors holds regular meetings once a month and extraordinary meetings as necessary, decides on audit policies, standards, and other matters, and receives status reports on audits and on other matters from each corporate auditor.

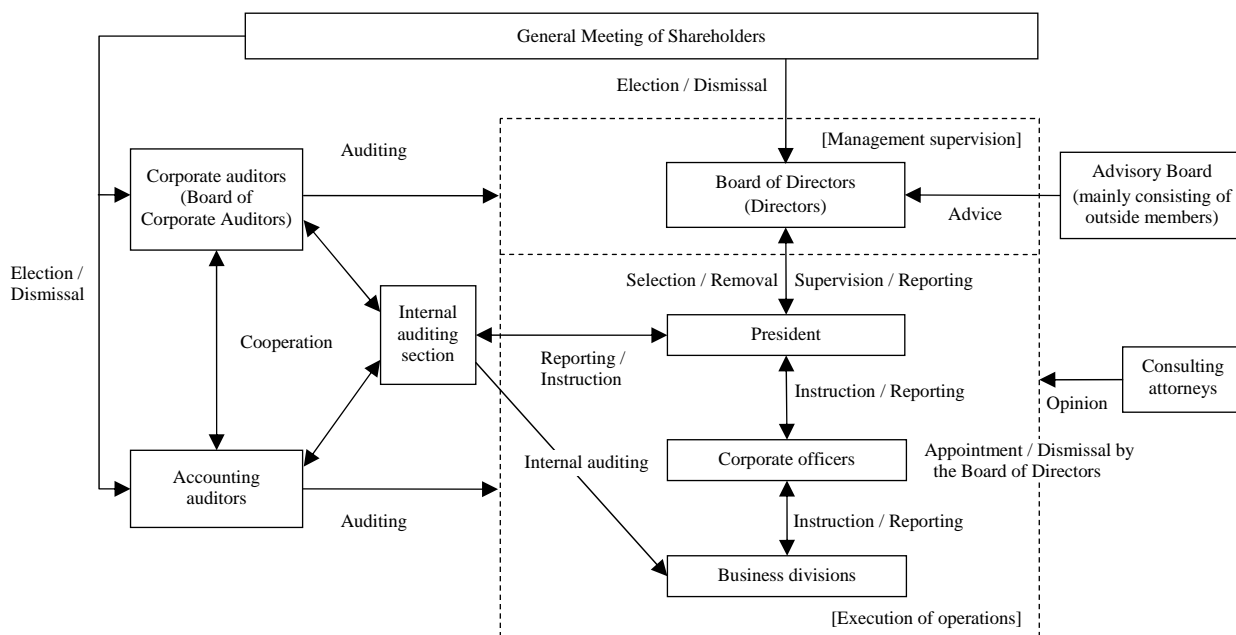
The Company has in place an Advisory Board as a consultative body to the Board of Directors, serving for the purpose of ensuring transparency and objectivity of management. The Advisory Board is composed mainly of experts from outside the Company who provide advice and suggestions on important matters regarding corporate governance, etc.

In addition, the Company introduced a corporate officer system in June 2005. For important matters on the execution of operations, a preliminary deliberation is conducted by the Executive Management Committee consisting of corporate officers before being placed to the Board of Directors for consideration. The Executive Management Committee convenes, in principle, twice a month.

Regarding management monitoring, in addition to four corporate auditors, the Company has in place the Internal Auditing Division as an internal auditing section reporting directly to the President. Moreover, the Company receives, as necessary, opinions from the consulting attorneys

on the legality of the management and overall operations.

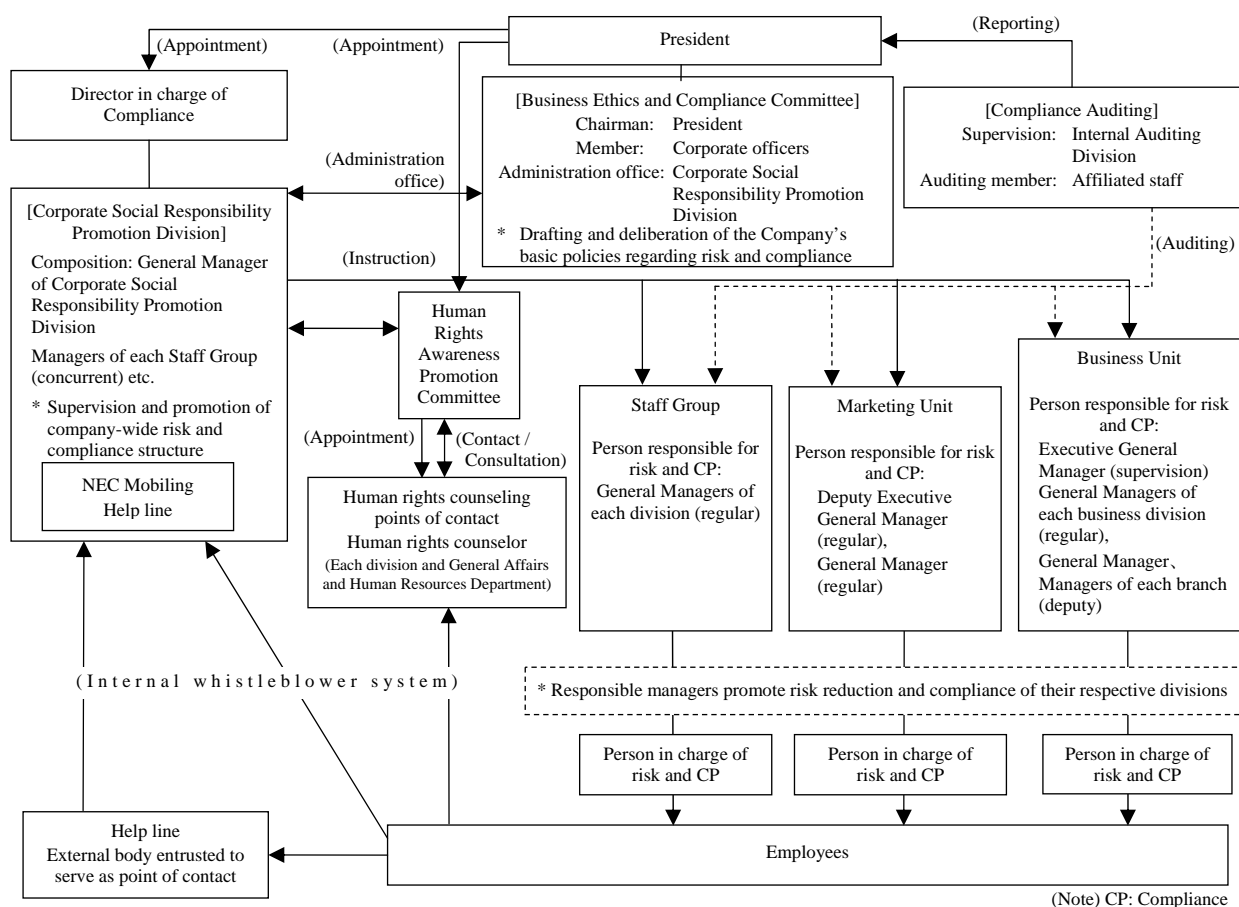
The Company's corporate governance structure is as follows:



b. Overview of risk and compliance structure

In accordance with its Basic Risk Management Policy and Management Crisis Response Policy, the Company has in place company-wide basic policies on risk management as well as risk management system, and performs day-to-day risk management through guidelines, training and periodical audits, among others. The Company established the NEC Mobiling Code of Conduct to thoroughly instill corporate ethics and legal compliance in directors and corporate auditors and employees. In addition, it formulated the Basic Compliance Policy and established the “Business Ethics and Compliance Committee” made up of corporate officers, to draft and deliberate basic policies regarding risk and compliance as well as promoting related measures. The Company established the “NEC Mobiling Help Line” as its internal whistleblower system. Points of contact were established both internally and externally, as a means of detecting potential risks and compliance information at an early stage.

The Company's risk and compliance structure is as follows:



c. Reasons for adoption of current corporate governance structure

The Company has adopted the current corporate governance structure because it believes that its monitoring and supervisory functions with respect to management are effectively carried out by the aforementioned appointment of outside directors and outside corporate auditors including independent officers, establishment of the Advisory Board, introduction of the corporate officer system, formulation of the auditing structure under corporate auditors and the internal auditing section as well as the formulation of the risk and compliance structure.

(b) Status of internal audits, audits by corporate auditors and accounting audits

a. Status of internal audits

To prevent corporate misconduct, the Company has in place the Internal Auditing Division (seven staff) as an internal auditing section reporting directly to the President. By collecting information, etc. from business divisions, risk and compliance promotion section and accounting section, etc., the Internal Auditing Division performs periodical internal audits of the Company's operations, risk and compliance as well as internal controls over financial reporting and accounting activities in general, examining the appropriateness of the procedures and compliance with laws and regulations and internal policies.

b. Status of audits by corporate auditors

The Board of Corporate Auditors of the Company consisted of four members, three of whom are outside corporate auditors. One of the three outside corporate auditors has many years of experience in accounting operations at NEC Corporation, the Company's parent company, and its subsidiaries. Because of his knowledge and experience accumulated throughout his career, he possesses adequate knowledge on financial and accounting matters. Also, one of the two outside corporate auditors is an attorney with no conflicts of interest with the Company and notification that this corporate officer is an independent officer has been filed with the Tokyo Stock Exchange.

Regarding audits by corporate auditors, in addition to attending the Board of Directors meetings, the standing corporate auditors also participate in Executive Management Committee meetings, the Business Ethics and Compliance Committee and other important meetings, conduct interviews with each division such as risk and compliance promotion section, carry out reviews of settlement documents, etc. Corporate auditors and the Internal Auditing Division cooperate by sharing information in operational reports, etc. periodically.

c. Status of accounting audits

Accounting audits are conducted by KPMG AZSA LLC. The names of the certified public accountants (CPAs) conducting audits, the auditing firm to which the CPAs belong to, and the number of consecutive years of auditing of the Company are as follows: Seven CPAs and nine others also assisted in the auditing. The auditing firm and the corporate auditors conduct meetings periodically to discuss annual auditing plans, auditing policies, status of audits and results of audits.

Name of CPAs conducting audits	Name of the auditing firm to which the CPAs belong to	Number of consecutive years of auditing (Note)
Hidetoshi Fukuda Designated and engagement partner	KPMG AZSA LLC	–
Masafumi Tanabe Designated and engagement partner	KPMG AZSA LLC	–
Wataru Kurita Designated and engagement partner	KPMG AZSA LLC	–

(Note) The number of consecutive years of auditing has been omitted because all CPAs have not participated in the audits for more than seven years.

(c) Number of outside directors and outside corporate auditors, and overview of personal relationship, capital relationship, business relationship and other interests between the Company and its outside directors and outside corporate auditors

a. Number of outside directors and outside corporate auditors, and their personal relationship, etc. with the Company

The Company has four outside directors. For two, notification that the outside directors are independent officers has been filed with the Tokyo Stock Exchange. The other two are concurrently serving as an employee of NEC Corporation, the Company's parent company. There are no capital interests, important business relationship and other interest between each independent officer and the Company as of June 19, 2012.

The Company had three outside corporate auditors. Of the Company's three outside corporate auditors, for one, notification that the corporate auditor is an independent officer has been filed with the Tokyo Stock Exchange. The other one is concurrently serving as an employee of NEC Corporation, the other one is a former employee of NEC Corporation.

There are no business relationship and other interest between each independent officer and the Company as of June 19, 2012.

- b. Functions and roles, etc. to be fulfilled in relation to corporate governance by outside directors and outside corporate auditors

Mr. Keita Sato who is an independent officer, is a person with abundant experience and broad insight as a long-standing manager who provides supervision and advice from an independent standpoint. There are no important business relationship between Mr. Sato and the Company.

Mr. Yutaka Watanabe who is an independent officer, is a person with abundant experience and broad insight as a long-standing manager who provides supervision and advice from an independent standpoint. There are no important business relationship between Mr. Watanabe and the Company. Mr. Watanabe is newly appointed as a director at the annual ordinary meeting held at June 19, 2012.

The outside director Mr. Hajime Matsukura, concurrently serving as an employee of NEC Corporation, provides valuable advice for the management of the Company based on knowledge and experience acquired from many years of experience in corporate planning at NEC Corporation from a neutral and specialized perspective without planning for the profit of the parent company.

The outside director Mr. Hajime Kinoshita, concurrently serving as an employee of NEC Corporation, provides valuable advice for the management of the Company based on knowledge and experience acquired from many years of experience in legal division at NEC Corporation from a neutral and specialized perspective without planning for the profit of the parent company. Mr. Kinoshita is newly appointed as a director at the annual ordinary meeting held at June 19, 2012.

and advice with regard to the Company's management from the standpoint of minority shareholders.

Mr. Fukutaka Hashimoto, who is an independent officer, is a person with abundant experience and considerable legal insight as a long-standing lawyer who particularly provides supervision of the Company's management from the standpoint of lawfulness.

The outside corporate auditor Mr. Masayoshi Kyogoku is a person with abundant experience and considerable financial accounting insight acquired from many years of experiences in accounting division. Mr. Kyogoku is newly appointed as a corporate auditor at the annual ordinary meeting held at June 19, 2012.

The outside corporate auditor Mr. Koki Kawakami concurrently serving as an employee of NEC Corporation provides opinions necessary for ensuring the effectiveness of the Company's corporate governance based on knowledge and experience acquired from many years experience in corporate planning at NEC Corporation and its subsidiaries.

- c. Overview of standard or policy for appointing outside director/ corporate auditors

Though the Company does not have a standard or policy regarding appointing outside directors/outside corporate auditors, it uses Tokyo Stock Exchange's criteria for judgment for independent officer as references. The criteria are as follows;

a) person who executes/expected business of a parent company or its subsidiaries, b) party for which the Company is/was a major client or a person who executes its business, c) consultant, accounting professional, or legal professional who receives/received a large amount of money or other financial asset, d) person who executes business of the Company or its subsidiaries, e) close relatives of a person who meet the definition from a) to d)

The Company will not appoint a person who meets such criteria.

- d. Overview for oversight or audit by outside director/ corporate auditor, relationship between corporate auditors and internal auditors, and other overview for appointing outside director/corporate auditor

At the Board of Directors meetings, outside directors and outside corporate auditors receive reports on the status of risk and compliance, systems necessary to ensure that the execution of duties, and internal controls over financial reporting and provide advice and suggestions from a

neutral and specialized perspective.

As mentioned above, the Company believes that a structure necessary for monitoring and supervision of operations is set up through the appointment of outside directors and outside corporate auditors.

### 3) Compensation for directors and corporate auditors

#### (a) Basic policies

- a. Allows for securement of talented human resources to enhance the corporate value of the Company
- b. Inspires motivation in management by reflecting performance results

#### (b) Composition

- a. Fixed compensation: Determined based on the roles and scope of responsibilities of each director
- b. Performance compensation: Determined based on corporate results using evaluation indicators such as operating income growth rate and individual results of the director

#### (c) Total amount of compensation, etc. by category of the filing company, total amount of compensation, etc. by type and number of directors and corporate auditors subject to compensation

Category	Total amount of compensation, etc. (Millions of yen)	Total amount of compensation, etc. by type (Millions of yen)		Number of directors and corporate auditors subject to compensation (Person)
		Fixed compensation	Performance compensation	
Director (excluding outside director)	101	56	45	7
Corporate auditor (excluding outside corporate auditor)	15	15	–	1
Outside director	5	5	–	2
Outside corporate auditor	22	22	–	3

#### (d) Total amount of compensation, etc. on a consolidated basis by each director and corporate auditor of the filing company

Information is omitted as director or corporate auditor with a total amount of compensation, etc. on a consolidated basis of ¥100 million or more does not exist.

### 4) Overview of content of limited liability contracts

The Company has entered into contracts prescribed in Article 427-1 of the Companies Act (so-called limited liability contracts) individually with each outside director and outside corporate auditor. In summary, the limited liability contracts limit liability as prescribed by Article 423 of the Companies Act to the amount prescribed by the Companies Act, providing that the outside director or outside corporate auditor performs his or her duties in good faith without gross negligence.

### 5) Fixed number of directors

The Company has stipulated in its Articles of Incorporation that the number of directors of the Company shall be 10 or less.

6) Requirements for resolutions to elect directors

The Company has stipulated in its Articles of Incorporation that when the shareholders present at a General Meeting of Shareholders comprises one third or more of the voting rights of shareholders who are able to exercise voting rights, resolutions to elect directors may be passed by a majority of voting rights of shareholders present.

7) Delegation of authority to the Board of Directors

The Company has stipulated in its Articles of Incorporation that, except when otherwise provided for in laws and regulations, matters provided for in each item of 459-1 of the Companies Act, such as dividends from surplus, may be decided by resolution of the Board of Directors instead of by resolution of the General Meeting of Shareholders. The purpose of delegating the authority to decide the dividend from surplus and other matters to the Board of Directors is to effect flexible capital policy and dividend policy.

The Company has also stipulated in its Articles of Incorporation with respect to the purchase of treasury stock that in order to execute flexible capital policy, the Company may purchase its own shares on the open market based upon the resolution of the Board of Directors in accordance with the provision of Article 165-2 of the Companies Act.

8) Requirements for special resolutions at General Meetings of Shareholders

The Company has stipulated in its Articles of Incorporation with respect to special resolutions provided for in Article 309-2 of the Companies Act, that for the purpose of ensuring the smooth running of a General Meeting of Shareholders, when the shareholders present at a General Meeting of Shareholders comprises one third or more of the voting rights of shareholders who are able to exercise voting rights, said special resolutions may be passed by two thirds or a greater number of voting rights of shareholders present.

9) Position of shareholding

a. Investment shares held for purposes other than portfolio investment

Number of issues: 2  
Balance sheet value: ¥415 million

b. Holdings of investment shares of a single stock held for purposes other than portfolio investment whose amount stated on the balance sheet as of each fiscal year-end exceeds 1% of capital amount

Current fiscal year  
Specified investment shares

Issue	Number of shares	Balance sheet amount (Millions of yen)	Purpose of holding
BEST DENKI CO., LTD.	2,000,000	408	To maintain trading relationship
NTT DOCOMO, INC.	50	7	To maintain trading relationship

(Note) Although the amount stated on the balance sheet for shareholdings of NTT DOCOMO is less than 1% of the capital amount, the shareholding is presented as being in the top 30 issues held by the Company.



**(2) Contents of audit remunerations, etc.**

1) Contents of audit remunerations paid to auditing CPAs, etc.

Classification	Fiscal year ended March 31, 2010		Fiscal year ended March 31, 2011	
	Remuneration for audit attestation services (Millions of yen)	Remuneration for non-audit services (Millions of yen)	Remuneration for audit attestation services (Millions of yen)	Remuneration for non-audit services (Millions of yen)
Filing company	55	4	64	13
Consolidated subsidiaries	–	–	–	–
Total	55	4	64	13

2) Content of other significant remunerations

Not applicable

3) Content of non-auditing services performed by the accounting auditors for the filing company

(Current fiscal year)

The Company paid KPMG AZSA LLC consideration for advisory services related to the international financial reporting standard (IFRS).

4) Policy for deciding remuneration for auditing

In deciding remuneration for auditing to be paid to the accounting auditors, the Company receives an explanation pertaining to the audit plan created by the accounting auditors and examines the content thereof. The decision regarding remuneration requires the consent of the Board of Corporate Auditors.

## **V. Accounting**

### **1. Methods used in preparing the consolidated and non-consolidated financial statements**

(1) The consolidated financial statements of the Company were prepared based on the “Regulation for Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter, “Regulation for Consolidated Financial Statements”).

### **2. Audit Attestation**

The Company received accounting audits based on the provisions of Article 193-2 paragraph (1) of the Financial Instruments and Exchange Act, which were conducted by KPMG AZSA LLC. for the consolidated financial statements of the current fiscal year (April 1, 2011 to March 31, 2012) and the non-consolidated financial statements of the 40th business year (April 1, 2011 to March 31, 2012).

### **3. Special measures to ensure appropriateness in consolidated financial statements etc.**

The Company conducts special measures to ensure the appropriateness of its consolidated financial statements etc.

Specifically, in order to develop a system that enables the contents of accounting standards etc. to be appropriately understood and that is able to accurately respond to changes etc. in accounting standards etc., the Company joins in the Financial Accounting Standards Foundation, participates in seminars conducted by the said foundation, the auditing firm of the accounting auditors and other organizations, and compiles information.

#### 4. Consolidated financial statements, etc.

##### Consolidated financial statements

##### 1) Consolidated balance sheets

(Millions of yen)

Items	Term	As of March 31, 2011	As of March 31, 2012
		Amount	Amount
<b>Assets</b>			
<b>Current assets</b>			
Cash and deposits		7,392	7,841
Notes and accounts receivable—trade		17,017	17,967
Short-term investment securities		6,998	10,997
Merchandise and finished goods		4,252	4,477
Work in process		1,559	1,237
Raw materials and supplies		667	682
Deferred tax assets		1,736	1,628
Accounts receivable—other		7,977	11,095
Deposit paid in subsidiaries and affiliates		9,000	9,000
Other		578	621
Allowance for doubtful accounts		(7)	(5)
<b>Total current assets</b>		<b>57,169</b>	<b>65,540</b>
<b>Noncurrent assets</b>			
Property, plant and equipment			
Buildings and structures		3,689	3,659
Accumulated depreciation		(1,746)	(1,660)
Buildings and structures, net		1,943	1,999
Machinery, equipment and vehicles		33	33
Accumulated depreciation		(21)	(23)
Machinery, equipment and vehicles, net		12	10
Tools, furniture and fixtures		1,091	1,171
Accumulated depreciation		(671)	(691)
Tools, furniture and fixtures, net		420	480
Land		122	--
Lease assets		192	266
Accumulated depreciation		(98)	(138)
Lease assets, net		94	128
Construction in progress		28	8
<b>Total property, plant and equipment</b>		<b>2,619</b>	<b>2,625</b>
Intangible assets			
Goodwill		1,911	1,435
Other		676	417
<b>Total intangible assets</b>		<b>2,587</b>	<b>1,852</b>
Investments and other assets			
Investment securities		2,470	2,320
Deferred tax assets		1,902	1,571
Other		4,336	3,812
Allowance for doubtful accounts		(99)	(44)
<b>Total investments and other assets</b>		<b>8,609</b>	<b>7,659</b>
<b>Total noncurrent assets</b>		<b>13,815</b>	<b>12,136</b>
<b>Total assets</b>		<b>70,984</b>	<b>77,676</b>

(Millions of yen)

Items	Term	As of March 31, 2011	As of March 31, 2012
		Amount	Amount
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable — trade		13,939	14,338
Income taxes payable		2,265	2,272
Provision for loss on subleases		25	--
Accrued expenses		9,531	11,739
Other		1,925	2,025
<b>Total current liabilities</b>		<b>27,685</b>	<b>30,374</b>
<b>Noncurrent liabilities</b>			
Provision for retirement benefits		3,820	3,971
Provision for directors' retirement benefits		50	--
Other		697	741
<b>Total noncurrent liabilities</b>		<b>4,567</b>	<b>4,712</b>
<b>Total liabilities</b>		<b>32,252</b>	<b>35,086</b>
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Capital stock		2,371	2,371
Capital surplus		2,707	2,707
Retained earnings		34,323	37,614
Treasury stocks		(0)	(0)
<b>Total shareholders' equity</b>		<b>39,401</b>	<b>42,692</b>
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities		(669)	(102)
<b>Total accumulated other comprehensive income</b>		<b>(669)</b>	<b>(102)</b>
<b>Total net assets</b>		<b>38,732</b>	<b>42,590</b>
<b>Total liabilities and net assets</b>		<b>70,984</b>	<b>77,676</b>

## 2) Consolidated statement of (comprehensive) income

(Millions of yen)

Items	Term	Fiscal Year ended March 31, 2011	Fiscal Year ended March 31, 2012
		Amount	Amount
<b>Net sales</b>		<b>125,620</b>	<b>126,084</b>
Cost of sales		104,700	103,720
<b>Gross profit</b>		<b>20,920</b>	<b>22,364</b>
Selling, general and administrative expenses		11,312	11,926
<b>Operating income</b>		<b>9,608</b>	<b>10,438</b>
Non-operating income			
Interest income		42	45
Dividend income		197	159
Rent income		59	47
Other		23	61
Total Non-operating income		321	312
Non-operating expenses			
Interest expense		3	4
Rent expenses		51	28
Loss on retirement of noncurrent assets		40	79
Other		19	26
Total Non-operating expenses		113	137
<b>Ordinary income</b>		<b>9,816</b>	<b>10,613</b>
Extraordinary gains			
Reversal of provision for loss on subleases		49	--
Gain on transfer of business		75	--
Adjustment to fees for seconded employees		123	--
Other		17	--
Total extraordinary gains		264	--
Extraordinary losses			
Loss on adjustment for changes of accounting standard for asset retirement obligations		108	--
Head office transfer cost		108	--
Loss on disaster		41	--
Extra retirement payments		26	--
Loss on sales of non-current assets		--	24
Office transfer expenses		--	122
Loss on liquidation of business		--	43
Loss on valuation of investment securities		--	1,119
Total extraordinary losses		283	1,308
<b>Income before income taxes</b>		<b>9,797</b>	<b>9,305</b>
Income taxes-current		4,211	4,380
Income taxes-deferred		90	37
Total income taxes		4,301	4,417
<b>Income before minority interests</b>		<b>5,496</b>	<b>4,888</b>
<b>Net income</b>		<b>5,496</b>	<b>4,888</b>

3) Consolidated statement of comprehensive income

(Millions of yen)

Items	Term	Fiscal Year ended March 31, 2011	Fiscal Year ended March 31, 2012
		Amount	Amount
<b>Net income</b>		<b>5,496</b>	<b>4,888</b>
<b>Other comprehensive income</b>			
Valuation difference on available-for-sale securities		(129)	567
Total other comprehensive income		(129)	567
<b>Comprehensive income</b>		<b>5,367</b>	<b>5,455</b>

(Comprehensive income attributable to)

Comprehensive income attributable to owners of the parent	5,367	5,455
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## 4) Consolidated statement of changes in net assets

(Millions of yen)

Items	Term	As of March 31, 2011	As of March 31, 2012
		Amount	Amount
<b>Shareholders' equity</b>			
Capital stock			
Balance at the beginning of current period		2,371	2,371
Changes of items during the period			
Total changes of items during the period		--	--
<b>Balance at the end of current period</b>		<b>2,371</b>	<b>2,371</b>
Capital surplus			
Balance at the beginning of current period		2,707	2,707
Changes of items during the period			
Total changes of items during the period		--	--
<b>Balance at the end of current period</b>		<b>2,707</b>	<b>2,707</b>
Retained earnings			
Balance at the beginning of current period		30,280	34,323
Changes of items during the period			
Dividends from surplus		(1,453)	(1,598)
Net income		5,496	4,888
Total changes of items during the period		4,043	3,291
<b>Balance at the end of current period</b>		<b>34,323</b>	<b>37,614</b>
Treasury stock			
Balance at the beginning of current period		(0)	(0)
Changes of items during the period			
Total changes of items during the period		--	--
<b>Balance at the end of current period</b>		<b>(0)</b>	<b>(0)</b>
Total shareholders' equity			
Balance at the beginning of current period		35,358	39,401
Changes of items during the period			
Dividends from surplus		(1,453)	(1,598)
Net income		5,496	4,888
Total changes of items during the period		4,043	3,291
<b>Balance at the end of current period</b>		<b>39,401</b>	<b>42,692</b>

(Millions of yen)

Items	Term	As of March 31, 2011	As of March 31, 2012
		Amount	Amount
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period		(540)	(669)
Changes of items during the period			
Net changes of items other than shareholders' equity		(129)	567
Total changes of items during the period		(129)	567
<b>Balance at the end of current period</b>		<b>(669)</b>	<b>(102)</b>
Total Accumulated other comprehensive income			
Balance at the beginning of current period		(540)	(669)
Changes of items during the period			
Net changes of items other than shareholders' equity		(129)	567
Total changes of items during the period		(129)	567
<b>Balance at the end of current period</b>		<b>(669)</b>	<b>(102)</b>
<b>Total net assets</b>			
Balance at the beginning of current period		34,818	38,732
Changes of items during the period			
Dividends from surplus		(1,453)	(1,598)
Net income		5,496	4,888
Net changes of items other than shareholders' equity		(129)	567
Total changes of items during the period		3,914	3,858
<b>Balance at the end of current period</b>		<b>38,732</b>	<b>42,590</b>



## 5) Consolidated statement of cash flows

(Millions of yen)

Term	Fiscal Year ended March 31, 2011	Fiscal Year ended March 31, 2012
<b>Items</b>		
<b>Cash flow from operating activities</b>		
Income before income taxes	9,797	9,305
Depreciation and amortization	997	821
Amortization of goodwill	469	476
Increase (decrease) in allowance for doubtful accounts	(23)	(58)
Increase (decrease) in provision for retirement benefit	47	261
Increase (decrease) in provision for directors' retirement benefit	(4)	(50)
Increase (decrease) in provision for loss on subleases	(84)	(25)
Interest and dividend income	(239)	(204)
Interest expense	3	4
Foreign exchange losses (gains)	1	0
Loss on retirement of property, plant and equipment	40	79
Loss (gain) on sales of noncurrent assets	--	24
Loss (gain) on sales of investment securities	(2)	--
Loss (gain) on valuation of investment securities	--	1,119
Loss (gain) on transfer of business	(75)	--
Loss on liquidation of business	--	43
Loss on adjustment for changes of accounting standard for asset retirement obligations	108	--
Head office transfer cost	108	122
Loss on disaster	41	--
(Increase) decrease in notes and accounts receivable—trade	(963)	(950)
(Increase) decrease in inventories	(349)	82
(Increase) decrease in accounts receivable—other	108	(3,194)
Increase (decrease) in notes and accounts payable—trade	(118)	442
Increase (decrease) in accrued expenses	212	2,207
Increase (decrease) in accrued consumption taxes	27	202
Increase (decrease) in deposits received	86	72
Other, net	(327)	346
<b>Sub-total</b>	<b>9,860</b>	<b>11,124</b>
Interest and dividend income received	239	204
Interest expense paid	(3)	(4)
Income taxes paid	(4,485)	(4,373)
Other, net	(55)	(104)
<b>Net cash provided (used-in) by operating activities</b>	<b>5,556</b>	<b>6,847</b>

(Millions of yen)

Term	Fiscal Year ended March 31, 2011	Fiscal Year ended March 31, 2012
<b>Items</b>		
<b>Cash flow from investing activities</b>		
Purchases of property, plant and equipment	(872)	(718)
Proceeds from sales of property, plant and equipment	--	159
Purchases of intangible assets	(184)	(164)
Proceeds from sales of investment securities	4	--
Purchase of stocks of subsidiaries and affiliates	(330)	--
Proceeds from transfer of business	--	86
Payments for transfer of business	(129)	--
Other, net	93	(81)
<b>Net cash provided by (used in) investing activities</b>	<b>(1,418)</b>	<b>(718)</b>
<b>Cash flows from financing activities</b>		
Cash dividends paid	(1,451)	(1,597)
Repayments of lease obligations	(33)	(73)
<b>Net cash provided by (used in) financing activities</b>	<b>(1,484)</b>	<b>(1,670)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1)</b>	<b>0</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,653</b>	<b>4,459</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>20,587</b>	<b>23,240</b>
<b>Cash and cash equivalents at end of period</b>	<b>23,240</b>	<b>27,699</b>

**[Significant matters providing the basis for the preparation of consolidated financial statements]**

Item	Fiscal year ended March 31, 2011
1. Scope of consolidation	<p>(1) Number of consolidated subsidiaries: 3  Name of consolidated subsidiaries:  Matsuhaya Corporation  Matsuhaya Shoji Co., Ltd.  Honda Matsuhaya, Co., Ltd.</p> <p>(2) Major unconsolidated subsidiary  Name of unconsolidated subsidiary:  Shanghai Mobiling, Ltd.</p> <p>(Reasons for excluding from the scope of consolidation)  Shanghai Mobiling, Ltd. is excluded from the scope of consolidation since said subsidiary's assets and net sales etc., are considered immaterial to the point that such exclusion does not impede a reasonable judgment regarding the financial position and business results of the Group.</p>
2. Application of equity method	<p>Unconsolidated subsidiary not accounted for by the equity method:  Name of unconsolidated subsidiary:  Shanghai Mobiling, Ltd.</p> <p>(Reasons for excluding from the application of the equity method)  Shanghai Mobiling, Ltd. is excluded from the application of the equity method since its net income/loss (based on the Company's ownership percentage) and retained earnings etc. (based on the Company's ownership percentage) are considered immaterial to the point that such exclusion does not impede a reasonable judgment regarding the financial position and business results of the Group.</p>
3. Fiscal year of consolidated subsidiaries	<p>The fiscal year-end of consolidated subsidiaries coincides with the consolidated balance sheet date.</p>
4. Accounting policies	<p>i. Securities</p> <p>1) Available-for-sale securities:</p> <ul style="list-style-type: none"> <li>• Securities with market value:  Stated at fair market value based on market prices at the balance sheet date. (Valuation difference is reported as a component of net assets, with the cost of securities sold being calculated by the moving-average method.)</li> <li>• Securities without market value:  Stated at cost determined by the moving-average method.</li> </ul> <p>ii. Inventories</p> <p>Valued at cost (write-downs to net selling value regarded as decreased profitability)</p> <ul style="list-style-type: none"> <li>• Merchandise, finished goods, semi-finished goods, raw materials:  Based on a first-in, first-out method</li> <li>• Work in process:  Based on the specific identification method</li> </ul>
(1) Policy and methods to evaluate significant assets	

Item	Fiscal year ended March 31, 2011
(2) Depreciation methods for significant depreciable assets	<p>i. Property, plant and equipment (excluding lease assets) Depreciated principally using the declining-balance method. However, buildings held by consolidated subsidiaries (excluding facilities accompanying buildings) are depreciated using the straight-line method. Useful lives of main assets are as follows: Buildings and structures: 2 to 42 years Machinery, equipment and vehicles: 2 to 9 years Tools, furniture and fixtures: 2 to 20 years</p> <p>ii. Intangible assets (excluding lease assets) Amortized using the straight-line method. Software products for own use are amortized over their estimated useful lives in the Group (usually five years) by using the straight-line method.</p> <p>iii. Lease assets Lease assets in finance lease transactions that do not transfer ownership are depreciated by the declining-balance method, defining the lease term of respective assets as their useful lives, without residual value. Among lease assets in finance lease transactions that do not transfer ownership, lease transactions that commenced on or before March 31, 2008 are accounted for in a manner similar to ordinary rental transactions.</p>
(3) Accounting policies for significant allowances and provisions	<p>i. Allowance for doubtful accounts To provide for potential loss on notes and accounts receivable - trade and other loans, the Group makes an allowance for the expected amount of uncollectable loans. Allowances for ordinary bad debts are computed based on the historical rate of default, and for specific debts where recovery is highly doubtful, the Group considers the likelihood of recovery on an individual basis.</p> <p>ii. Provision for retirement benefits To provide for employees' retirement benefits, the Group makes a provision for estimated retirement benefits for the fiscal year based on the projected retirement benefit obligations and related pension assets as of the end of the fiscal year. Prior service costs are charged to expenses, using the straight-line method, over the determined years that are no longer than the average remaining service years of the employees at the time of occurrence. Actuarial differences are amortized evenly using the straight-line method over the determined years that are no longer than the average remaining service years of employees at the time of occurrence, beginning from the fiscal year following the time of occurrence.</p> <p>iv. Provision for directors' retirement benefits The Group makes provisions for a necessary amount of retirement benefits for directors of subsidiaries as of the end of each fiscal year, in accordance with the Group's internal rules.</p>
(4) Amortization method and amortization period of goodwill	Goodwill is amortized equally over five years.
(5) Scope of cash and cash equivalents in the consolidated statements of cash flows	Cash (cash and cash equivalents) in the consolidated statements of cash flows includes cash on hand, readily available deposits and short-term investments easily convertible to cash with negligible risk of fluctuation in value and whose maturities do not exceed three months from the acquisition date.

Item	Fiscal year ended March 31, 2011
(6) Other significant matters for the preparation of consolidated financial statements	Accounting for consumption taxes Consumption taxes are accounted for based on the tax exclusion method.

**[Changes in significant matters providing the basis for the preparation of consolidated financial statements]**

Fiscal year ended March 31, 2012
<p>(Depreciation method for property, plants, and equipment)</p> <p>Effective from the current fiscal year, the Group has changed the depreciation method for the calculation of property, plants, and equipment from the declining-balance method to the straight-line method.</p> <p>The change was made based on the Company's conclusion that the use of the straight-line method, where the depreciable cost of an asset is expensed in equal increments over the useful life of the asset, is more reasonable in light of the changing business environments that surround the mobile sales and mobile service operations.</p> <p>The Mobile Sales Business previously relied on the declining-balance method for the calculation of depreciation for the tangible assets in the shops they operate, in order to ensure the accelerated recovery of invested capital associated with them in preparation for obsolescence. However, the emergence of smartphones is halting the decline in the number of handsets sold at individual shops, and the Company, based on this new development, has concluded that the use of the straight-line method applied over the economic life, appropriate for the state of the use of individual tangible assets in the shops, would result in a fairer calculation of income in the reported period generated by individual shops. Despite the saturated state of Japan's mobile phone market, replacement demand is expected to keep unit sales at a stable level.</p> <p>Given the stable level of the number of mobile handsets sold, the Mobile Service Business foresees that demand for its mobile phone repair services will remain virtually unchanged. For this reason, the use of the straight-line method, where the depreciable cost is spread evenly over the useful life of a tangible asset, is more reasonable for the Mobile Service Business.</p> <p>The change had the effect of decreasing depreciation charges for the fiscal year under review by ¥282 million and increasing operating income, ordinary income, and income before income taxes by ¥272 million, respectively, compared with the respective amounts derived by using the previous method.</p> <p>&lt;Additional information&gt;</p> <p>(Application of the "Accounting Standard for Accounting Changes and Error Corrections" and others)</p> <p>For the accounting changes and error corrections made in after the beginning of the year ended March 31, 2012, the Company have applied the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24 of December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24 of December 4, 2009).</p>

**[Notes to consolidated financial statements]**

**(Consolidated statements of income)**

Fiscal year ended March 31, 2012	
*1	Major items and amounts in selling, general and administrative expenses are as follows:
	(Millions of yen)
	Salaries and allowances 3,587
	Employees' bonuses 1,314
	Retirement benefit expenses 299
	Welfare expenses 724
	Rent expenses 970
	Provision for directors' retirement benefits 1
	Depreciation 441
	Amortization of goodwill 475
	Business consignment expenses 1,044
*2	Total amount of research and development expenses
	All research and development expenses are processed as general and administrative expenses, and their total amount is ¥12 million.
*3	Loss on sales of non-current assets are as follows:
	(Millions of yen)
	Buildings and structures 21
	Land 3
	Total 24

**(Consolidated statements of comprehensive income)**

Fiscal year ended March 31, 2012

\*1 Valuation difference on available-for-sale securities

	(Millions of yen)
Accrued during the year	(151)
Reclassification adjustments	1,119
Before tax effect	968
Tax effect	(401)
Valuation difference on available-for-sale securities	567
Total other comprehensive income	567

**(Consolidated statements of cash flows)**

Fiscal year ended March 31, 2012	
* Relationship between the balance of cash and cash equivalents at the end of fiscal year and the amount of consolidated balance sheet items.	
	(As of March 31, 2012)
	(Millions of yen)
Cash and deposits	7,841
Time deposits due over three months	(150)
Short-term investment securities	10,997
Deposit paid in subsidiaries and affiliates	9,000
Deposit included in current assets — other	11
Cash and cash equivalents	27,699

**(Lease transactions)**

Fiscal year ended March 31, 2011

## 1. Finance leases

Finance lease transactions not involving transfer of ownership

## i) Description of lease assets

- Property, plant and equipment

Primarily consists of communications equipment at the head office (tools, furniture and fixtures).

## ii) Method of depreciation of lease assets

Lease assets in finance lease transactions not involving transfer of ownership

Depreciation is computed by the declining-balance method assuming the lease periods as useful lives without residual value.

Please note that of finance lease transactions that do not transfer ownership, lease transactions that commenced on or before March 31, 2008 are accounted for in a manner similar to ordinary rental transactions. The details are as follows:

- (1) Purchase price equivalent, accumulated depreciation equivalent, accumulated impairment loss equivalent and year-end value equivalent of lease property

	Purchase price equivalent (Millions of yen)	Accumulated depreciation equivalent (Millions of yen)	Accumulated impairment loss equivalent (Millions of yen)	Year-end value equivalent (Millions of yen)
Tools, furniture and fixtures	124	109	-	15
Machinery, equipment and vehicles	8	8	-	0
Total	132	117	-	15

- (2) Future minimum lease payments, etc.

Future minimum lease payments

Due in one year or less ¥16 million

Due over one year - million

Total ¥16 million

Accumulated impairment loss on leased assets at end of fiscal year - million

- (3) Lease payments, reversal of accumulated impairment loss on leased assets, depreciation equivalent, interest expenses equivalent and impairment loss

Lease payments ¥60 million

Reversal of accumulated impairment loss on leased assets ¥3 million

Depreciation equivalent ¥55 million

Interest expenses equivalent ¥1 million

- (4) Calculation method of depreciation equivalent

Primarily, depreciation equivalent is computed by the straight-line method assuming the lease periods as useful lives without residual value.

- (5) Calculation method of interest equivalent

The difference between the total lease amount and the purchase price equivalent of the lease property is considered to be the interest equivalent and is allocated to each period based on the interest method.

## 2. Operating lease transactions

Future minimum lease payments related to non-cancellable operating leases

Due in one year or less ¥589 million

Due over one year ¥1,507 million

Total ¥2,096 million

## (Employee retirement benefits)

### 1. Overview of employee retirement benefit plans

The Company has defined-benefit retirement plans, including a corporate pension plan, a contract-type defined-benefit corporate pension plan and a lump-sum retirement benefit plan.

Regarding the corporate pension plan, the Company participates in the NEC Welfare Pension Fund established in December 2003. The contract-type defined-benefit corporate pension plan was transferred from the tax-qualified pension plan in April 2005. Also, extra retirement benefits may be paid to employees at retirement.

A portion of the lump-sum retirement benefit plan was transferred to the defined-contribution retirement plan in April 2008.

Consolidated subsidiaries transitioned its retirement benefits plan to the lump-sum retirement benefit plan from the tax-qualified pension plan in November 2010.

### 2. Retirement benefit obligations and their breakdown

	(Millions of yen)
	As of March 31, 2012
(1) Retirement benefit obligations	(7,342)
(2) Pension assets	2,890
(3) Unfunded retirement benefit obligations (1)+(2)	(4,452)
(4) Unrecognized actuarial differences	1,127
(5) Unrecognized prior service cost	(73)
(6) Net amount recognized in the consolidated balance sheet (3)+(4)+(5)	(3,398)
(7) Prepaid pension expenses	573
(8) Provision for retirement benefits (6) – (7)	(3,971)

### 3. Breakdown of retirement benefit expenses

	(Millions of yen)
	Fiscal year ended March 31, 2012
Retirement benefit expenses	704
(1) Service cost	399
(2) Interest cost	177
(3) Expected return on plan assets	70
(4) Amortization of prior service cost	15
(5) Amortization of actuarial differences	137
(6) Contribution to defined-contribution retirement plan	64
(7) Extra retirement benefits	12



#### 4. Assumptions used in the calculation of retirement benefit obligations

	As of March 31, 2011
(1) Discount rate	Primarily 2.5%
(2) Expected rate of return on plan assets	2.5%
(3) Method of attributing the projected benefits to periods of service	Point-base
(4) Years for amortizing prior service cost	15 years
(5) Years for amortizing actuarial differences	15 years

#### (Tax effect accounting)

As of March 31, 2012	
1. Breakdown of deferred tax assets and liabilities	
	(Millions of yen)
Deferred tax assets	
Provision for retirement benefits	1,215
Accrued bonuses	701
Valuation difference on available-for-sale securities	57
Loss on valuation of inventories	290
Asset adjustment	428
Asset retirement obligations	111
Loss on valuation of non-current assets	96
Accrued enterprise taxes	172
Loss on devaluation of investment securities	399
Other	652
Subtotal	4,121
Valuation allowance	(370)
Total deferred tax assets	3,751
Deferred tax liabilities	
Special distributions	(286)
Asset retirement obligations	(44)
Loans to subsidiaries and affiliates	(222)
Total deferred tax liabilities	(552)
Net deferred tax assets	3,199
2. Major factors of differences between the statutory tax rate and the effective income tax rate of consolidated financial statements after tax effect accounting application	
	(%)
Statutory tax rate	40.69
(Adjustments)	
Inhabitant tax levied per capita etc.	1.28
Amortization of goodwill not deductible from income	2.00
Adjustment of deferred tax assets due to change in statutory tax rate	3.30
Others	0.20
Effective income tax rate after the application of tax effect accounting	47.47

#### (Asset Retirement Obligations)

Fiscal year ended March 31, 2011

Asset retirement obligations recorded on the consolidated balance sheet

##### a. Outline of relevant asset retirement obligations

Asset retirement obligations primarily consist of restoration obligations etc, related to real estate lease contracts for buildings used as stores.

b. Calculation method for the amount of relevant asset retirement obligations

Estimating a potential usage period of 10 years from the opening of a store, asset retirement obligations are calculated using a discount rate of 1.051% to 1.360%.

c. Increase (decrease) in asset retirement obligations for the fiscal year ended March 31, 2012 were as follows:

	(Millions of yen)
Balance at beginning of year (Note)	320
Increase due to purchase of property, plant and equipment	137
Adjustment to interest	4
Decrease due to settlement of obligations	(147)
Change in estimated	(9)
Balance at end of year	<u>305</u>

(Note) This is the balance at beginning of year due to adoption of the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008) from the fiscal year under review.

d. Change in estimated asset retirement obligation

Asset retirement obligation decreased by ¥9 million during the fiscal year under review, reflecting the decrease in estimated amount of retirement obligation.

## [Segment Information]

Fiscal year ended March 31, 2011

### 1. Outline of reportable segment information

The reportable segments of the Company are components of the Company whose separate financial information is available. These segments are periodically evaluated by the Board of Directors in deciding how to allocate management resources and in assessing the performance.

The Company has established business units by product or service, and each business unit plans its own comprehensive strategy for the products or services it handles, and conducts business activities. Accordingly, the Company has two reportable segments, "Mobile Sales Business" and "Mobile Service Business," composed from the product and service segments based on the business units. The Mobile Sales Business sells mobile communications terminals and peripheral equipments, and operates franchise business, etc. The Mobile Service Business provides maintenance services for mobile communications terminals, on-site tuning and maintenance services for mobile communications base stations, etc.

### 2. Methods of measurement for the amounts of net sales, income or loss, assets, liabilities and other items by reportable segments

The accounting treatment regarding the reportable business segments are the same as recorded in the "Significant matters providing the basis for the preparation of consolidated financial statements." In addition, although corporate assets (surplus funds, investments and advances, etc.) are not allocated to each reportable segment, relevant expenses are allocated to each reportable segment in an appropriate manner.

### 3. Information about net sales, income or loss, assets, liabilities and other items by reportable segments

Fiscal year ended March 31, 2012

	Reportable segments			Others (Millions of yen)	Total (Millions of yen)
	Mobile Sales Business (Millions of yen)	Mobile Service Business (Millions of yen)	Subtotal (Millions of yen)		
Net sales					
(1) Net sales from external customers	95,513	30,571	126,084	–	126,084
(2) Inter-segment sales or transactions	–	–	–	–	–
Total	95,513	30,571	126,084	–	126,084
Segment income	4,673	5,765	10,438	–	10,438
Segment assets	34,927	9,297	44,224	–	44,224
Other items					
Depreciation Expenses	547	274	821	–	821
Amortization of goodwill	476	–	476	–	476
Increase in property, plant and equipment and intangible assets	348	305	653	–	653

### 4. Amount and outline of difference between the total amounts of reportable segments and amounts on consolidated financial statements (items regarding adjustment of difference)

Assets	Fiscal year ended March 31, 2012 (Millions of yen)
Total reportable segments	44,224
Corporate assets	33,452
Total assets on consolidated financial statements	77,676

(Note) Corporate assets are primarily surplus funds (Cash and deposits), investments and advances (Investment securities) etc., that are not included in reportable segments.

Other items	Total reportable segments	Adjustment amount	Amounts of consolidated financial statements
	FY ended March 31, 2012 (Millions of yen)	FY ended March 31, 2012 (Millions of yen)	FY ended March 31, 2012 (Millions of yen)
Increase of property, plant and equipment and intangible assets	653	109	762

(Note) The adjustment amount of increase of property, plant and equipment and intangible assets is primarily the amount of capital investments in software and the property, plant and equipment in the head office building.