

# March 2006 Interim Settlement Detailed Discussion

November 25, 2005

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# 1. Interim Consolidated Statements of Income

(¥100 million)

	Sept 04	Sept. 05	Amt change	% change	Details
Net Sales	1,117	<b>1,191</b>	74	6.6%	• NTT (50), DoCoMo (56), NCC (28) Private (-26), Civil Engineering (-17), Other (-17)
Cost of Sales	982	<b>1,042</b>	60	6.1%	• Cost of sales ratio (88.0% → 87.5% -0.5 percentage pts) • Reduced materials and personnel costs (-16) via efficiency measures
Gross Profits	134	<b>148</b>	14	10.4%	• Gross profit margin (12.0 % → 12.5 %; +0.5 percentage pts)
Selling, General and Administrative Expenses	103	<b>99</b>	-4	-3.9%	• Reduced personnel costs (-2) via personnel downsizing and pension revisions • Reduced overhead expenses (-2)
Operating Income	31	<b>49</b>	18	58.1%	• Operating margin (2.8% → 4.2%; +1.3 percentage pts)
Other Income	12	<b>11</b>	-1	-8.3%	• Decrease in dividend income (-0.5)
Other Expenses	1	<b>0</b>	-1	-100.0%	• Decrease in interest expenses (-0.6)
Current Income	42	<b>60</b>	18	42.9%	• Recurring profit margin (3.8% → 5.1%; +1.3 percentage pts)
Extraordinary Income	1	<b>4</b>	3	300.0%	• Gain on revision of subsidiary retirement plans (2.2) • Gain on sale of investment securities (0.7)
Extraordinary Loss	19	<b>7</b>	-12	-63.2%	• Interim 05: Overseas reserves (7.0), Reserves for structural reforms (4.6), Special retirement benefits (1.8), Loss on write-down of investment securities (3.3), Loss on disposal of property and equipment (2.3) • Interim 06: Allowance for doubtful receivables (Heisei Denden Co., Ltd. 3.6), Special retirement benefits (2.0), Loss on disposal of property and equipment (1.1)
Interim Net Income	14	<b>34</b>	20	142.9%	• Interim net profit margin (1.3% → 2.9%; +1.6 percentage pts)

## 2. Interim Consolidated Statements of Income by Company

(¥100 million)

	COMSYS Group			SANCOM Group			TOSYS Group		
	Sept. 04	Sept. 05	Amt change	Sept. 04	Sept. 05	Amt change	Sept. 04	Sept. 05	Amt change
Net Sales		<b>971</b> NTT 37 NCC -68	(112)		<b>153</b> NTT -42 NCC 68	(-9)		<b>117</b> NTT 5	(11)
	859	<b>940</b>	81	162	<b>179</b>	17	106	<b>122</b>	16
Cost of Sales	751	<b>817</b>	66	147	<b>165</b>	18	93	<b>108</b>	15
Gross Profits	(12.5%) 107	(13.0%) <b>122</b>	15	(8.9%) 14	(7.7%) <b>13</b>	-1	(11.5%) 12	(11.6%) <b>14</b>	2
Selling, General and Administrative Expenses	75	<b>71</b>	-4	15	<b>16</b>	1	11	<b>13</b>	2
Operating Income	(3.7%) 31	(5.4%) <b>50</b>	19	(-0.8%) -1	(-1.4%) <b>-2</b>	-1	(1.0%) 1	(1.0%) <b>1</b>	0
Other Income	11	<b>11</b>	0	0	<b>0</b>	0	0	<b>0</b>	0
Other Expenses	0	<b>0</b>	0	1	<b>0</b>	1	0	<b>0</b>	0
Current Income	(5.0%) 42	(6.6%) <b>62</b>	20	(-1.2%) -1	(-1.3%) <b>-2</b>	-1	(1.7%) 1	(1.2%) <b>1</b>	0
Extraordinary Income	1	<b>1</b>	0	0	<b>0</b>	0	0	<b>0</b>	0
Extraordinary Loss	12	<b>7</b>	-5	6	<b>0</b>	-6	0	<b>0</b>	0
Interim Net Income (Expenses)	(2.3%) 19	(3.6%) <b>34</b>	15	(-3.1%) -5	(-1.0%) <b>-1</b>	4	(0.8%) 0	(0.3%) <b>0</b>	0

Note 1: Figures in parenthesis refer to net profit margins

Note 2: Net sales in brackets exclude the effect of business reorganization.

### 3. Net Sales by Business Segment

(¥100 million)

Business \ Company	COMSYS Group				SANCOM Group				TOSYS Group			
	Interim06		Change		Interim06		Change		Interim06		Change	
NTT Information Telecommunication Engineering	(694)	731	(+104)	+141	(48)	6	(-3)	-45	(76)	81	(+8)	+13
Electrical Communications Engineering	(131)	63	(+2)	-66	(79)	147	(-8)	+60	22			+4
IT Solutions		97		-1		10		+2	10			+1
Social System-related		47		+7		14		0	8			-1
Total	(971)	940	(+112)	+81	(153)	179	(-11)	+17	(117)	122	(+11)	+16

Note: Figures in parenthesis exclude the effects of business reorganization.

#### Reference: Impact of Interim Inter-company Sales

Business \ Company	Nippon COMSYS	SANCOM	TOSYS
NTT	+4.2 bn (+3.8)	-4.2 bn (-8)	
NCC	-6.8 bn (-5.0)	+6.8 bn (+50)	
Impact on Interim Results	-3.1 bn (-1.7)	+2.6 bn (+12)	+500 mn (+500)

Note: Figures in parenthesis refer initial plan targets.

## 4. Interim Cost Reductions via Operational Efficiency Measures, including Operational Integration



(¥100 million)

Category Item	Amount and % Change 50%	Period Target	Key Measures
Personnel	¥400 mn [¥50 mn] (67%)	6 [1]	Promotion of early retirement via generous retirement packages and revision of pension system Streamlining workforce allocation via business reorganization
Materials	¥500 mn [¥500 mn] (56%)	9 [9]	Implementation of volume discounts via bulk procurement of materials
Outsourcing	¥400 mn [¥100 mn] (40%)	10 [4]	Revision of subcontracting contracts Elimination of duplicated services via reorganization of construction structure
Overhead	¥300 mn [¥200 mn] (23%)	13 [10]	Elimination of expenses via expanding outsourcing of shared operations Elimination of debt via expansion of CMS Reduction of overhead costs
<b>Total</b>	<b>¥1.6 bn</b> <b>[¥850 mn]</b> (42%)	<b>38</b> <b>[24]</b>	—

Note 1: Figures in brackets represent the effect of operational efficiency measures.

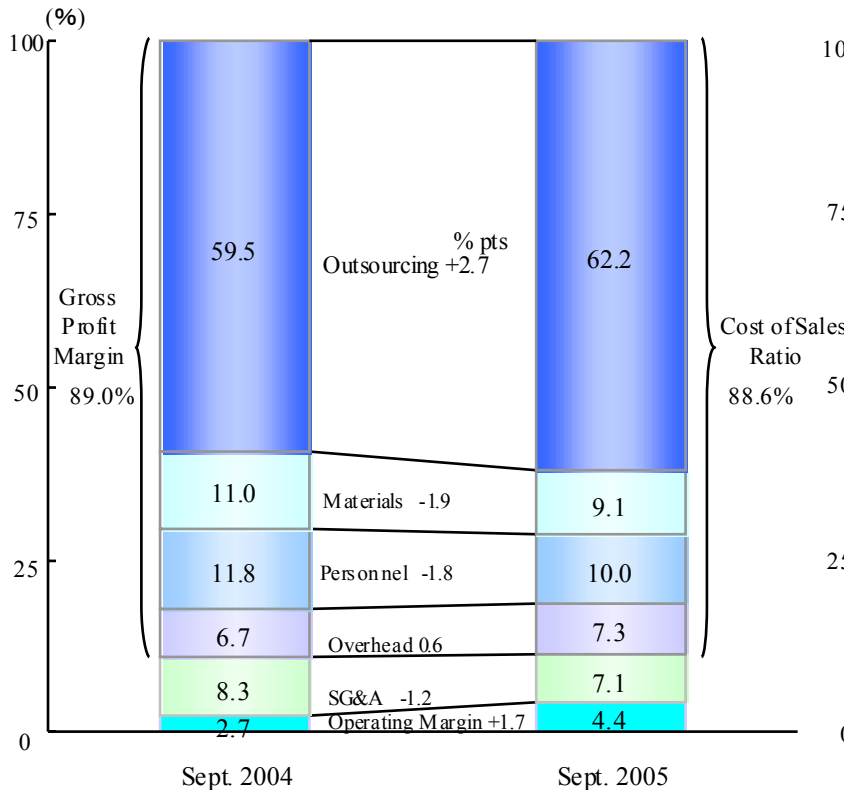
Note 2: Figures in parenthesis refer to the percentage change compared with the annual plan target.

# (Reference) Breakdown of Expenses (Non-consolidated for Nippon COMSYS)

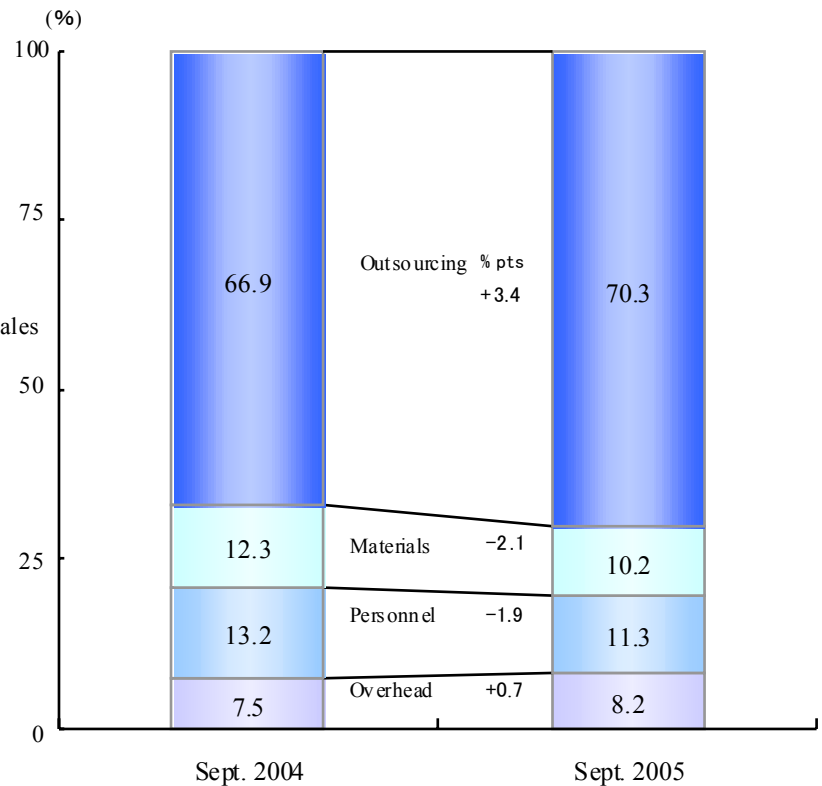


YoY: ① Gross profit margin: 89.0%→88.6% (+0.4 percentage pt) ② Improved personnel, materials and SG&A expenses

<Expense Ratios per Net Sales>

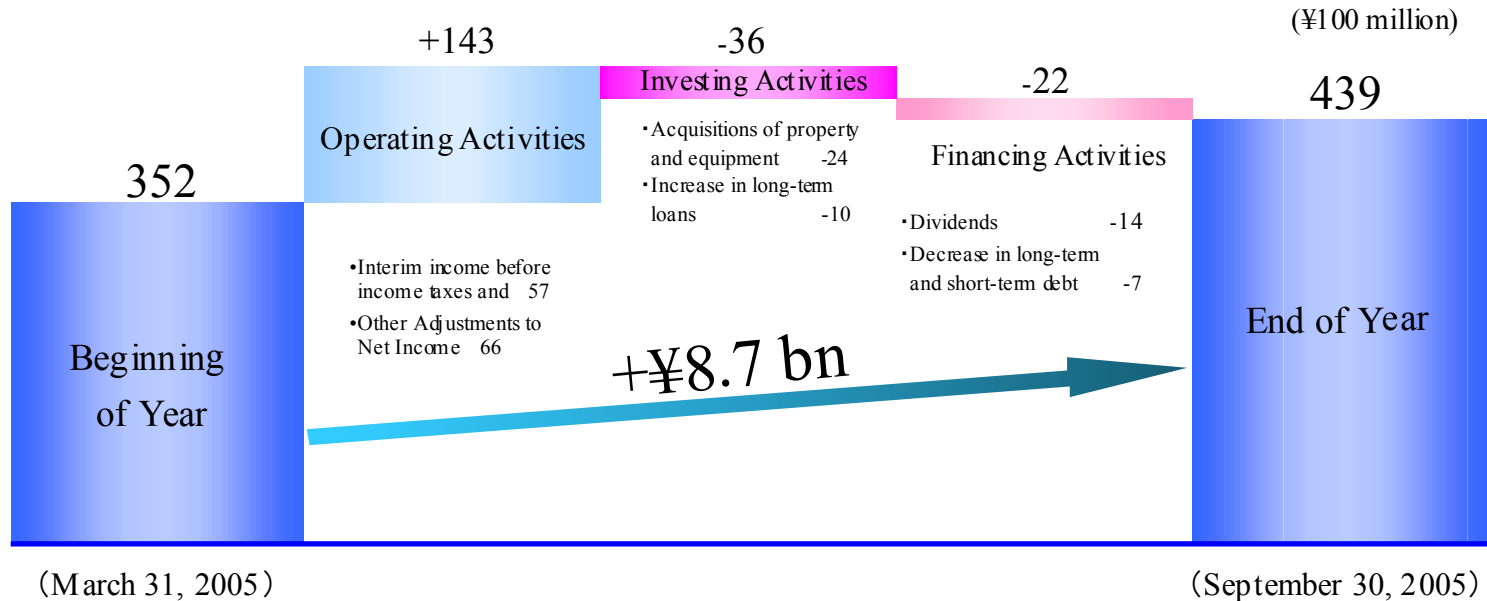


< Expense Ratios per Cost of Sales >





## 6. Interim Consolidated Statements of Cash Flows



### Cash Flow Indicators

	Sept. 2004	Sept. 2005	Key Factors in Change (Increase/Decrease)
■ Free Cash Flow (Operating CF – Investing CF)	¥8.7 bill	¥10.7 bn	Increase in operating cash flows (¥2.7 bn) Increase in investing cash flows (¥700 mn)
■ Years to Debt Repayment	0.3 years	0.1 years	Decrease in interest-bearing debt (¥3.1 bn); Increase in operating cash flows (¥2.7 bn)
■ Interest Coverage (times)	106.4	294.4	Decrease in interest expenses (-¥60 mn); Increase in operating cash flows (¥2.7 bn)
■ (Reference) EBITDA margin (Operating Income Basis)	4.50%	5.74%	Increase in net sales (¥7.4 bn); Increase in EBITDA (¥1.8 bn)