



Nippon COMSYS Corporation

# 2000 ANNUAL REPORT

**Fiscal Year Ended March 31, 2000**

**COMSYS**

**—For Excellence in**

**Telecommunications**

PROFILE



Nippon COMSYS Corporation was founded in 1951 to perform the functions of the Construction Division of Nippon Telegraph and Telephone Corporation (NTT). From that time forward, COMSYS has been a leader in the building of Japan’s telecommunications infrastructure, and has played a major role in the development of the emerging information-intensive society. Fueled by employee pride, we learned to foster a corporate climate characterized by open communications and the flow of fresh ideas, where every talent and ability can be fully expressed and brought to maturity. An engineering firm riding the fusion of communications and computer technologies, COMSYS is expanding the range of its operations to encompass every facet of the rapidly unfolding information-technology revolution. We are striving to make a contribution to the development of the 21st century’s high-order, information-intensive society. COMSYS is a creative firm, working to build a richer future.

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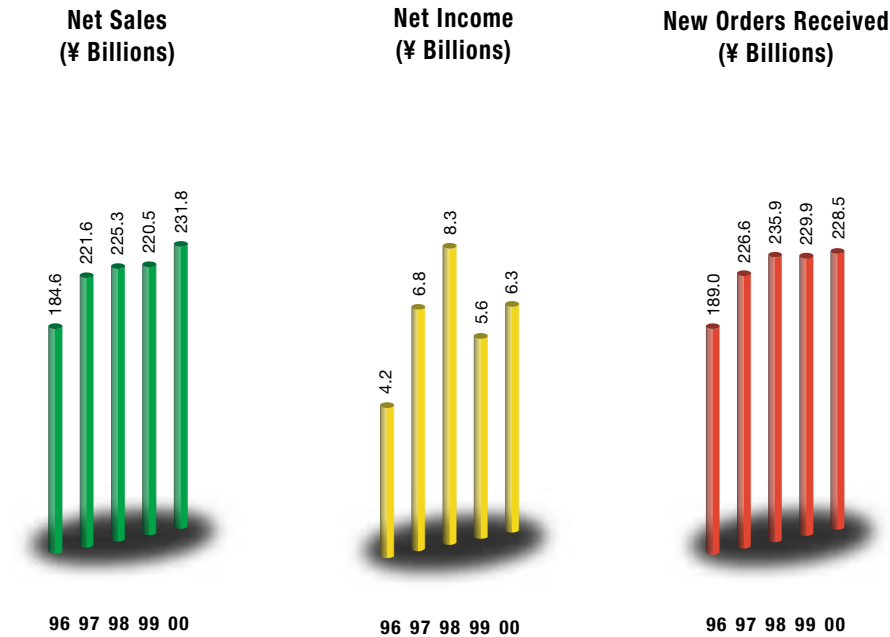
CONSOLIDATED FINANCIAL HIGHLIGHTS

Nippon COMSYS Corporation and Consolidated Subsidiaries  
Years ended 31st March, 1999 and 2000



|   | Millions of yen |          | Thousands of<br>U.S. dollars | Change<br>(%) |
|---|-----------------|----------|------------------------------|---------------|
|   | 1999            | 2000     | 2000                         |               |
| Contract backlog at beginning of the year   | ¥ 68,995        | ¥ 78,348 | \$ 739,132                   | 13.6%         |
| Contract backlog at beginning of the year<br>adjusted for newly consolidated subsidiaries | —               | 1,665    | 15,708                       | —             |
| New orders received during the year   | 229,875         | 228,518  | 2,155,830                    | −0.6%         |
| Net sales   | 220,522         | 231,750  | 2,186,321                    | 5.1%          |
| Contract backlog at end of the year   | 78,348          | 76,781   | 724,349                      | −2.0%         |
| Net income  | ¥ 5,625         | ¥ 6,315  | \$ 59,575                    | 12.3%         |
| Total assets  | 171,669         | 188,961  | 1,782,651                    | 10.1%         |
| Shareholders’ equity  | 101,721         | 115,834  | 1,092,774                    | 13.9%         |
|   | Yen             |          | U.S. dollars                 |               |
| Per share:  |                 |          |                              |               |
| Net income  | ¥ 42.97         | ¥ 46.73  | \$ 0.44                      | 8.8%          |
| Cash dividends  | 10.00           | 10.00    | 0.09                         | 0.0%          |

Note: Yen figures have been translated into U.S. dollars at the rate of ¥106.00=US\$1, rounded, for convenience only, from an approximate exchange rate of ¥106.15 to the dollar prevailing on 31st March, 2000.



## LETTER FROM THE MANAGEMENT



### Environment

**D**uring this term, the Japanese government engaged in a number of measures intended to stimulate the economy. As a result of this, there were some signs of recovery in capital investment in some sectors. However, the uncertain employment picture and declining income held consumer spending down, preventing economic recovery.

Conditions in the telecommunications industry, which is this Company's operating arena, were affected by the unfavorable economy. However, the information-technology (IT) revolution is exploding, in turn bringing an increasing sophistication and rising level of technology in society and in economic activities. The telecommunications market, as a result, continues its expansion. At the same time, the market was strongly affected by the restructuring of the NTT Group and by a series of alliances and mergers among telecommunications firms, and also by the introduction of various new services and the intensification of cost competition—developments which involve foreign-owned firms as well as Japanese.

To build a management structure that can deal efficiently with these significant changes in the market, and with the diversification of customer needs, Nippon COMSYS Corporation has established the position of corporate executive officer, which has streamlined the decision-making process and strengthened our competitiveness. We also enhanced our project-execution capabilities and our regional interoperability through business alliances with other firms in our industry. While thus strengthening our construction capabilities, we also strove to increase construction orders from NTT and the NTT Group. Together with this, we conducted full-scale efforts to expand our business in the areas of business solutions, software development and other IT-related businesses, and overseas construction projects (primarily in Southeast Asia).

### Consolidated Performance

**N**ew orders received during the year on a consolidated basis declined 0.6 percent to ¥228.5 billion (US\$2,156 million). Although the Domestic Construction and Engineering Sector turned in a solid performance, the NTT Construction Sector was affected by the contraction of capital investment at NTT, and the



*Pictured: (left) Chairman Shozo Iwasaki and President Hironobu Takeuchi*

Overseas Construction Sector was hurt by the economic turmoil in Southeast Asia.

Consolidated net sales benefited from the strong performance of the Domestic Construction and Engineering Sector, which achieved growth of 5.1 percent to ¥231.8 billion (US\$2,186 million).

The Company's profitability has benefited from our long-term improvements in efficiency, our establishment of internal systems and organizations, the reductions in construction costs that we have achieved, and the establishment and strengthening of our subcontracting system. In addition, we have undertaken to improve the profitability of the COMSYS Group through the optimal utilization of liquidity and other measures. As a result of the foregoing, operating income rose 9.1 percent to ¥15.6 billion (US\$147 million). We strengthened countermeasures to the increase in benefit obligations caused by the implementation of new accounting standards. We amortized prior service costs of ¥7.1 billion (US\$70 million) and posted that sum as a special loss, and we applied our reserve for retirement allowances of ¥4.3 billion (US\$41 million) to special profits. Despite this, consolidated net income rose 12.3 percent to ¥6.3 billion (US\$60 million) as a result of our shift to deferred tax accounting.

After the above measures, the Company is left with a further ¥87 billion (US\$82 million)

in benefit obligations to deal with. This sum will be completely amortized in the coming fiscal year through the establishment of a retirement benefit trust (stock contribution) and other measures.

### Outlook and Important Issues

**I**n the coming fiscal year, NTT can be expected to continue its capital investments in cellular phones and other mobile-communications technologies. As the NTT Group accounts for a large percentage of our orders received, this is a significant factor in the outlook for COMSYS over the coming term. At the same time, though, the cutbacks in NTT's capital investments called for in its medium-term management reform measures can also be expected to have an effect.

In non-NTT markets, the IT revolution is predicted to bring rapid expansion of Internet access services, online marketing, and other IT services. In response, and taking into account trends in strategic businesses such as CC Box construction, cable television, and business solutions, we are striving to expand orders from the new common carriers, foreign-owned telecommunications firms, and other companies outside the NTT Group. We are also conducting a full-scale marketing effort designed to increase our business in the information industry, as well as to expand our projects in Southeast Asia and elsewhere overseas. From this, it can be seen that we regard the further expansion of orders as the single most important issue facing the COMSYS Group.

In response to the operational environment described above, the Company needs to strengthen its sector-specific market strategies and to win new customers. To this end, next fiscal year Nippon COMSYS Corporation will establish a Sales and Marketing Headquarters, which will have responsibility for marketing operations for the NTT Construction Sector, the Domestic Construction and Engineering Sector, and the Information Systems Sector. The Sales and Marketing Headquarters will be composed of five divisions, and will be organized around account managers who will have responsibility for specific clients. This integration will allow COMSYS to establish companywide marketing strategies, and to achieve rapid and effective response to customer requirements.

We have also implemented a project management system that will allow the organic integration of the NTT and non-NTT divisions, promoting the efficient utilization of both personnel and technologies. Each branch will thoroughly reevaluate its marketing and project-execution systems on this basis, and this will bring companywide improvement in the optimal utilization of human resources. This, in turn, will take to a new level our efforts to expand orders received, reduce project costs, and improve the quality of our work.

COMSYS treated the millennium bug as the most important management issue of the period of this report. The "Year 2000 Special Project," which involved a thorough inspection of all our key systems, divisional systems, peripheral equipment, and all our own products (primarily software), allowed the Company to weather the transition with no significant problems.

### Dividends and Internal Reserves

**A**s the foundation for the continued expansion of a company's operations, dividend policy is one of the most important issues that faces any firm. We are also seeking further strengthening of our financial structure and improved return on equity. We also balance the best possible dividend payout to shareholders with considerations of the Company's performance and its continued ability to generate dividends.

Based on the policy described above, the Company declared a midterm dividend of ¥5 per share, and a year-end dividend of another ¥5 per share, for a total dividend of ¥10 per share for the term. This represents a payout ratio of 23.5 percent, for return on equity of 5.8 percent. The ratio of dividends to shareholders' equity is 1.2 percent.

In addition to dividends, as another source of income to shareholders, we are retiring treasury stock out of net income. We will be setting aside a further ¥5 per share for this purpose through the midpoint of next fiscal year. During the period of this report we purchased 335,000 shares of treasury stock, and have completed procedures to retire these shares. We used the reserve for retirement of treasury stock of ¥664 million (US\$6 million) for this purpose.

Internal reserves accumulated during this fiscal year we plan to use to reinforce our business base, making capital investments in the expansion of training facilities, in the replacement

of tools and instruments for purposes of upgrading technology and improving safety, and in the improvement of the work environment through enhancement of construction bases. We also want to make effective investments in the opening up of new fields of business for the Company.

Dividends will continue to be the primary source of shareholder income. However, from the standpoint of diversifying returns to shareholders, we want to continue to retire treasury stock using a fixed percentage of income for the purpose. To this end, COMSYS plans to extend this term's dividend and treasury stock policies into the coming fiscal year.

Nippon COMSYS Corporation will celebrate its 50th anniversary in December 2001. The Company plans to declare an additional, commemorative dividend of ¥2 per share in celebration of that event.

### Capital Investment and Fund Acquisition

**D**uring this term, the COMSYS Group increased its capital investments by ¥6,930 million (US\$65 million). These included the purchase of the Dai Ni Tanimachi Building and the land it stands on for the new Kansai Office. We also invested in the purchase of land for the construction of the Adachi Technostation (a construction base), and in the construction of an education and training center in Omiya. No bonds or other instruments were issued during this term.

### Outlook for the Term Ahead

**W**e forecast that Nippon COMSYS Corporation and its nine consolidated subsidiaries (including COMSYS Net Corporation, which will become a consolidated subsidiary in the coming term) will post 2.3 percent growth in net sales during the following term, for a total of ¥237 billion (US\$2,236 million). We look for net income to rise 6.1 percent to ¥6.7 billion (US\$63 million). As we mentioned above, we expect that the contraction of capital investments at NTT will have an effect on our NTT-related orders received. Overall, though, the explosive expansion of the IT revolution has created an opportunity to expand our business.

In response to these conditions, the Company will continue as before to reinforce

the management and technological capabilities needed to mount a nimble response to these rapidly changing market conditions. We must also enhance our cost competitiveness in response to today's exacting business environment, deploying the capabilities of the entire Group to achieve stronger and stronger performance.

To develop a corporate climate that will allow us to face the challenges of the 21st century with confidence, we have attached a new meaning to CI (corporate identity). At our Company, it now stands for "COMSYS Innovation," and our whole Company is united in furthering this program. In the interests of protecting the planetary ecology, we are working to achieve ISO 14000 certification in next fiscal year.

The end of this fiscal year will usher in the 21st century. You are aware that we desire to make a contribution to the development of the new century's high-order, information-intensive society, and to that end are strengthening our business base as a truly comprehensive engineering enterprise. We request the continued support of the company's shareholders, clients, business partners, and employees as we carry this effort forward.

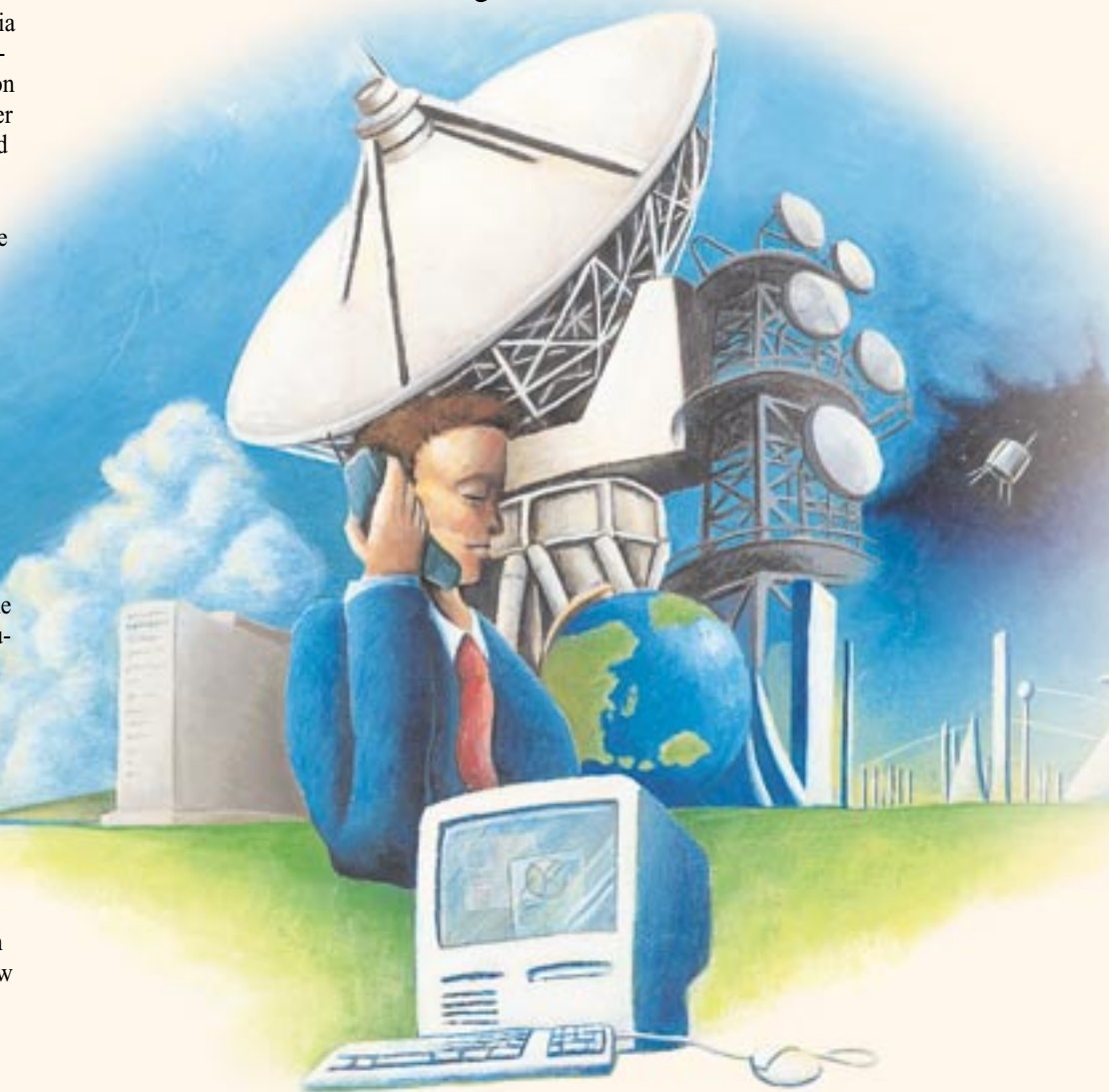
**Shozo Iwasaki**  
*Chairman and Representative Director*

**Hironobu Takeuchi**  
*President and Representative Director*



# Toward the 21st Century—Our Vision of the Future

- The opening of the 21st century will be characterized by explosive growth in multimedia computing and communications, as the world sees the evolution of high-order, information-based societies. The Ministry of Posts and Telecommunications has announced the Information Communications Infrastructure Program, which projects the development of an optical-fiber network serving the entire nation by the year 2010. COMSYS expects to be deeply involved in the execution of this plan.
- To clarify its response to these trends, COMSYS drafted a medium-term management plan. Recently, we reevaluated that plan from the standpoint of our performance through the fiscal year ending March 31, 2005. Goals now include:
- Strengthening our NTT construction operations, as well as increasing the earnings of our domestic and overseas telecommunications construction projects and information services such as software development. By the fiscal year ending March 31, 2005, on an unconsolidated basis, we will increase total annual revenues to ¥320 billion (US\$3,019 million), while bringing the ratio of NTT contracts down from the current 60 percent to approximately 40 percent.
- Responding to the worsening cost competition in the market with a companywide efficiency enhancement program, which will encompass not only subsidiaries and affiliates, but subcontractor firms as well; and achieving recurring profits of ¥18 billion (US\$170 million).
- Strengthening training programs and developing proprietary technology, primarily in the field of construction, in response to today's rapid pace of technological innovation. Continuing to stress mechanization and advanced facilities on our construction sites, for the purposes of improving the work environment and ensuring worker safety.
- The Ministry of Posts and Telecommunications projects that Japan's information and communications market will grow to ¥125 trillion (US\$1,179 billion) by the year 2010, including a telecommunications market of ¥26.8 trillion (US\$253 billion), an ¥8.4 trillion (US\$79 billion) broadcasting market, a communications and computer terminal market of ¥26.0 trillion (US\$245 billion), and a content (databases, images, video games, software, etc.) market of ¥63.4 trillion (US\$598 billion). Of this, telecommunications and broadcasting industry investment in 2010 is forecast at ¥7.2 trillion (US\$68 billion).
- COMSYS is determined to become the leading firm in the field, to make a contribution to a higher quality of life, and to enhance the business possibilities represented by these new telecommunications capabilities.



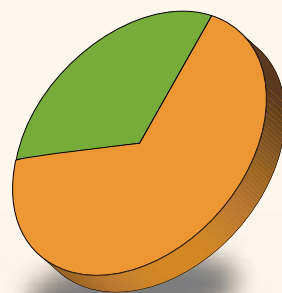
## Our Second Corporate Identity Campaign

- The year 2001 will be the first of the 21st century, and will also be the 50th anniversary of this Company's founding. This fiscal year marks the twelfth since the inauguration of our first Corporate Identity Campaign, and the tenth since we selected the Company's current name.
- Following the Company's establishment in 1951, COMSYS expanded chiefly on the strength of facilities construction projects for NTT. By the second half of 1970, however, the country's communications infrastructure was virtually completed. COMSYS, which generated over 90 percent of its revenues through NTT projects, found itself in grave difficulty. At that juncture, the Company began planning and preparing for the 21st century, diversifying into the fields of software development, computer sales, and other areas. Thus, the Company chose to reduce its reliance on NTT.
- The realization of this change in direction required a commitment to the new policies on the part of each employee, and it was to promote the permeation of these ideas throughout the Company that we launched our first Corporate Identity Campaign. In addition to this CI campaign, the Company has also undertaken programs to reevaluate business practices and procedures, bolster the Company's business base, improve its financial condition, and make the Company's stock a more attractive investment.
- As a result of this program, despite the persistently adverse economic conditions that commenced when the economic bubble collapsed, COMSYS was able to achieve continued growth in revenues and profits. Since adopting our current company name of Nippon COMSYS Corporation in the fiscal year ended March 31, 1990, and despite growth of only 10 percent in the work force, net revenues have more than doubled, operating profits have quadrupled, net assets have tripled, shareholders' equity has more than quadrupled, and capital has quintupled. Of course, the rapid expansion of demand in connection with new technologies such as cellular telephony, fiber optics, and digital communications played a role in this, but it also reflects the success of our CI campaign and other management-improvement measures. The efforts of each employee of the Company are seen in this performance.
- However, our efforts to improve did not end there. The issue of improvement and reform is continuously before the Company. In April 1999 we commenced our Second Corporate Identity Campaign, with the objectives of further reinforcing the permeation of the corporate philosophy and operations policies established in the first CI campaign, and of realizing a fresh and freer corporate atmosphere, of creating a stronger sense of unity throughout the COMSYS group. We believe this will allow us to lay the cornerstone of our operations in the 21st century.

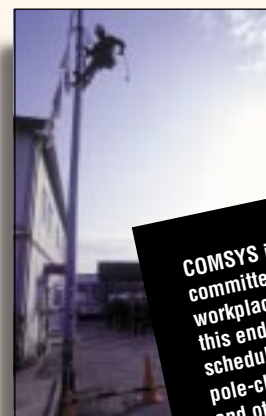
**67%** NTT

33% Non-NTT

Sources of Construction Contracts



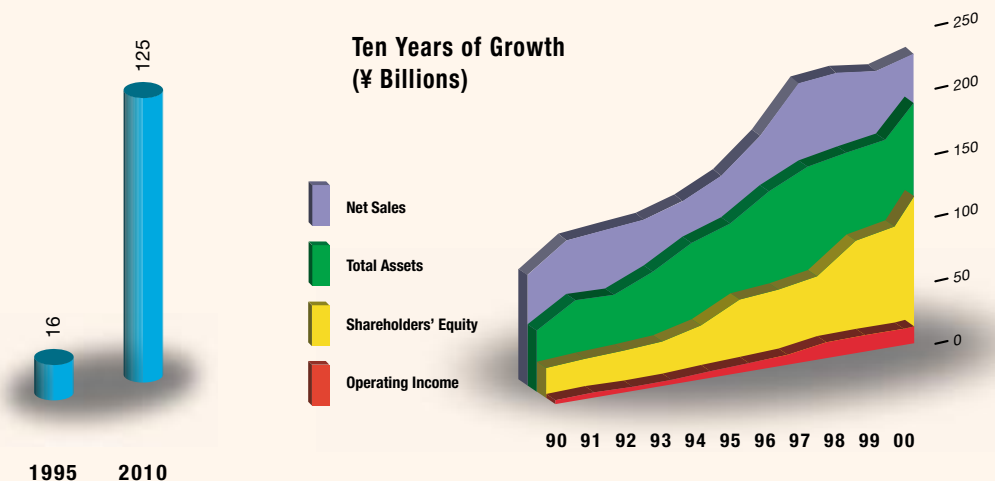
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COMSYS is highly committed to workplace safety. To this end, we conduct scheduled training in pole-climbing safety and other skills.

**¥125**trillion (2010)  
¥16 trillion (1995)

The Growing Multimedia Market



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## CORPORATE CITIZENSHIP

- COMSYS is taking an active role in the communities that host it, fostering environmental awareness, sponsoring cultural events, and offering disaster-preparedness training.
- Mindful of the environmental effects of paper consumption, COMSYS has implemented a paperwork reduction program, with the objective of reducing the Company's paper use. Paperwork reduction will also, of course, result in increased administrative efficiency, as approximately 40 percent of the forms used by the Company will be abolished.
- Demonstrating its commitment to responsible conservation, COMSYS has published "Global Environmental Protection Regulations" to govern all phases of the Company's operations.
- In 1995, the Company spearheaded a drive to collect contributions to buy artificial limbs for the disabled victims of Cambodia's seemingly interminable wars. This drive, which brought in ¥2,750,781, was born of our desire to make even a small contribution to rebuilding that war-torn land, to bring a measure of relief to even one person.
- COMSYS also undertakes projects in which concern for the environment is a factor. During this term we installed a cellular telephone facility in western Japan's Setonaikai National Park. The facility is on the grounds of the Rokkosan Farm, which is operated within the park by the city of Kobe. To ensure that there was no degradation of the natural beauty of the site, to blend in with nature, and to assure compatibility with the park's natural atmosphere, we created an artificial Japanese oak tree for the antenna pole. The pole is approximately 12 meters tall, and sports

an artificial Japanese oak pattern, branches and leaves. Everyone concerned is very pleased with this non-intrusive facility, which greatly increases convenience with no degradation of the environment.

COMSYS is also an active participant in the regional community. The Omiya Ardija soccer team debuted in the J2 soccer league. The team was founded through joint participation by COMSYS, NTT, and 19 other companies closely associated with NTT. The Japan Professional Football League is composed of regional teams, and develop players at all levels, from youth to professional. Omiya Ardija is intended to support and participate in player development, as well as being a club that all can enjoy. We are pleased and happy to have the opportunity to contribute to the public in this way.

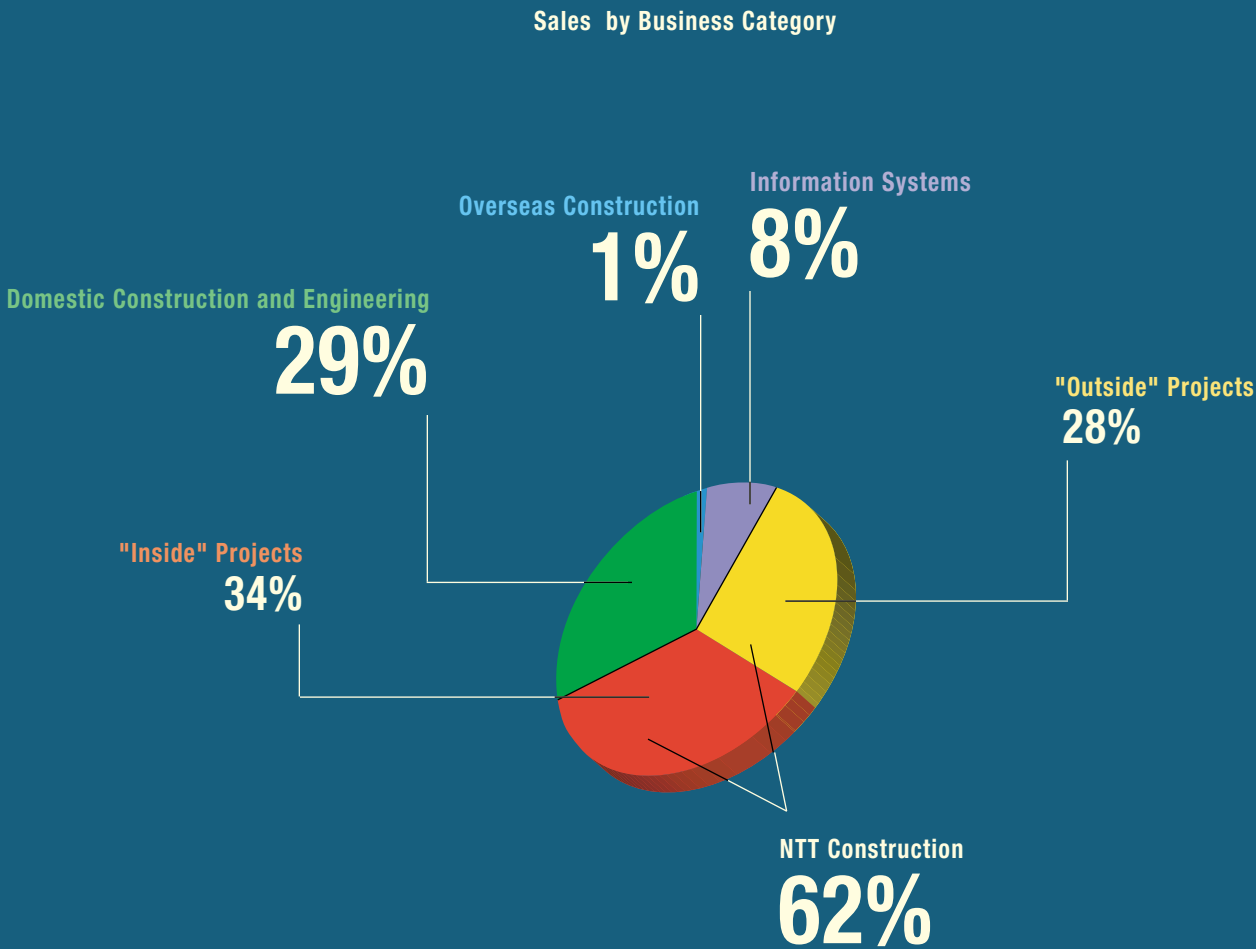
Another of the Company's activities is supporting The Tokyo Philharmonic Orchestra, of which COMSYS is a special member.

In 1984 the Tokyo Philharmonic gave performances in fifty cities in seven European countries, and in 1989 toured twenty cities in eight European countries. In 1994, the Philharmonic performed in fifteen cities, mainly in Germany and England. These concerts have earned the Tokyo Philharmonic a solid international reputation.

COMSYS is proud to be able to contribute in this way to the culture and society of our host regions. In this way, we return something to the communities that have made our existence and growth possible.



## REVIEW OF OPERATIONS





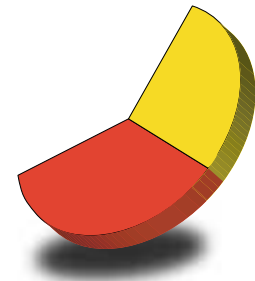
## NTT CONSTRUCTION

● NTT, which is this Company's most important client, broke up into four publicly listed companies in July 1999. NTT East and NTT West have charge of operations in eastern and western Japan, respectively, while NTT Communications handles long-distance services and international communications. NTT acts as holding company. NTT, thus, has altered its structure to that of a group of companies.

● With the rapid shift in emphasis in the telecommunications market from fixed communications systems to mobile communications, and from voice communications to data communications, there has been pressure on NTT to bring its telephone rates down still further. In response to this pressure, NTT is changing its corporate structure to that of a "global group of information distribution firms." NTT is also implementing measures, beginning with the reallocation of the NTT Group's human resources, to ensure that it remains an industry leader as we enter the information distribution era of the 21st century.

● Nippon COMSYS's NTT Construction Sector has responded to these changing circumstances, and in particular to the full-scale implementation of NTT's "New Project Management Method," which gives much wider discretion to the contractor who actually performs a job, by bringing costs down, enhancing workplace safety, and improving construction quality. At the same time, with a view to winning more contracts through an effective response to the measures taken by NTT, we completed construction of an education and training center in Saitama Prefecture's Omiya City in November 1999. This new center will allow the development of versatile technicians, including designers and experts in digital technology, and will allow further strengthening of our overall management capabilities in the areas of design, execution, and supervision.

● Notwithstanding the growth in demand for mobile communications services, NTT's cutbacks in capital spending affected the performance of this sector. Consolidated orders received were ¥136.1 billion (US\$1,284 million), while consolidated construction revenues rose only 0.4 percent, to ¥144.3 billion (US\$1,361 million).



**62%**  
of Total Revenue

Sales of NTT Construction  
(¥ Billions)

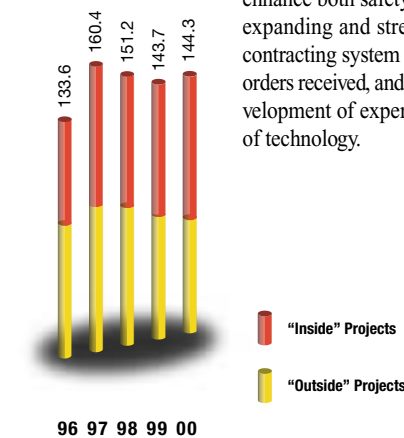
● Looking at some of the representative projects in this sector during the period of this report, we executed the installation of digital microwave transmission facilities some 230 meters above the ground in Yokohama's Minato Mirai 21 development. The MM21 development is intended to help Yokohama, one of Japan's leading international seaports, to evolve into a city well suited to prosper in the coming century. This facility is necessary infrastructure for digital cellular telephone services in Yokohama and the rest of Kanagawa Prefecture. Because NTT DoCoMo's Kanagawa branch and four other companies of the NTT Group have offices in the Yokohama Media Tower, where this facility is located, it is expected to serve as a telecommunications base for the next generation of technology. Antennas and wave guides were installed on a 148-meter microwave transmitter tower. This is the first time that a steel tower has been erected on the roof of a super-high-rise anywhere in the world, so, of course, safety was our primary concern.

● One large-scale project begun during this term was a long-distance shield tunneling project in Osaka. On this project, executed at a depth of 36 meters, we constructed a work shaft on the grounds of the NTT Takatsu Building, and used a pressurized slurry shield-tunneling machine to dig through stiff clay and sand for a distance of 3,000 meters. The tunnel, 3.15 meters in diameter, was then lined with segments of steel plate 1.2 meters in width.

● All branches in this sector have achieved ISO 9001 certification as of April 1999. In the near future, NTT will require all bidders on contracts to be ISO certified, but COMSYS will have no problem whatsoever meeting that requirement.

● Our participation in these projects and our work to achieve ISO certification must be understood in light of Nippon COMSYS's heartfelt desire to employ its wealth of experience and its technological expertise to make a contribution to the emerging high-order information-intensive society.

● In the next term, competition among telecommunications firms—including North American and European firms—will grow yet more intense. The market environment, therefore, is expected to worsen for the NTT Construction Sector. COMSYS will meet these circumstances by striving to enhance both safety and efficiency, by expanding and strengthening its subcontracting system in order to increase orders received, and by fostering the development of experts in various fields of technology.



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1. Constructing a steel tower and installing an antenna on the roof of the NTT DoCoMo Building.

2. The  $\pi$  System, communications infrastructure for the 21st century.

3. A performance test of optical fiber cable after installation.

4. A cable vault ready to receive telecommunications cables.



# DOMESTIC CONSTRUCTION AND ENGINEERING

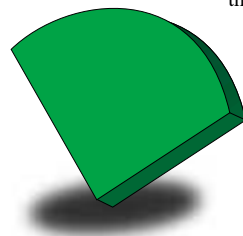
● The Domestic Construction and Engineering Sector handles all domestic telecommunications construction projects other than those for the NTT Group, as well as ordinary domestic construction projects. This includes contracts with the public sector, with the “new common carriers,” and with firms in other industries. This sector is engaged in a broad spectrum of activities, including the construction of telecommunications facilities and electric utility facilities, structural construction, and the installation of “CC Box” (multi-use underground cable conduit), cable TV equipment, and network solutions.

● Although the Domestic Construction and Engineering Sector has been affected by the prevailing poor economic conditions, as can be seen from the explosive growth of the Internet, the pace of technological advance in data communications networks is accelerating, and the IT revolution is advancing rapidly in both the public and private sectors. Together with this, the construction of the data communications infrastructure continues, including CC Boxes, optical fiber networks, and subscriber-type wireless access network facilities. Further, with mergers and tie-ups among telecommunications firms bringing the rebuilding of networks, and with the realization of next-generation IMT-2000 cellular telephone technology, capital investment among these telecommunications firms remained at a high level.

● COMSYS's response to these conditions is centered on its strategic CC Box, cable TV, and network solutions businesses. In addition, the division conducted a full-scale sales program designed to increase its structural construction orders. As a result of these measures, consolidated orders received rose to ¥70.0 billion (US\$660 million). Consolidated net revenues jumped 27.0 percent to ¥66.6 billion (US\$628 million), reflecting a substantial improvement in performance.

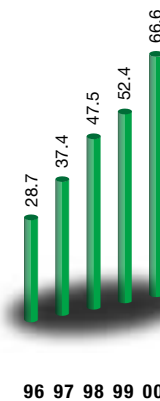
● Among representative projects during the period of this report was the installation of the high-speed access lines for the Okayama Information Highway. This project attracted a great deal of notice from the public sector nationwide, and in particular from the Ministry of Posts and Telecommunications, as a leap forward in the construction of regional data communications infrastructure.

COMSYS participated in every phase of this project, from design through execution. The Okayama Information Highway is a high-speed, high-capacity optical fiber



**29%**  
of Total Revenue

Sales of Domestic Construction  
and Engineering (¥ Billions)



communications network, which will be available free of charge to cable TV companies, Internet access providers, and other communications firms. It offers limitless possibilities in the fields of medicine, welfare, education, and business. The construction of high-speed data networks is a hot topic in the public sector nationwide, and COMSYS has both a high level of technological expertise and the track record established in this project to recommend it. We expect, therefore, to be active in this sector for the foreseeable future, and will be working to win more contracts in this field. Also during this term COMSYS installed Information Cable Boxes along the entire 13.5 kilometer length of the Tateyama Kurobe Alpen Route, which transverses the 3000-meter peaks of the northern Japan Alps. As this contract was let by the Ministry of Construction and executed within a national park, we were required to pay due care to a profusion of ecological and esthetic considerations. In addition, there are more than a few hazards associated with working in a mountain environment. By executing this project smoothly under such stringent conditions, COMSYS further enhanced its reputation as a reliable business partner.

● Beginning in the year 2000, the Ministry of Construction will require ISO 9000 certification as a condition of bidding on contracts under its purview. The Domestic Construction and Engineering Sector has already cleared this hurdle.

● This sector is at the center of the COMSYS Group's medium and long-term management strategy, and while retaining our focus on the IT revolution, we will endeavor to expand the breadth and variety of the Domestic Construction and Engineering Sector's business operations. We are continuing to strengthen our marketing and project-execution organizations for our strategic businesses—CC Boxes, cable TV, and network solutions. In addition, the NCCs (long-distance telephone providers, regional telephone providers, international telephone providers, and mobile communications providers) will have to rebuild networks as a result of the recent spate of mergers and alliances, and this will require substantial capital investments.

● COMSYS is proactively developing proposals to NCCs for measures they can take to strengthen their technological capabilities and to bring costs down. In addition, now that deregulation has allowed the entry of foreign-capital firms into the Japanese telecommunications market, COMSYS offers consulting on technology-upgrade and cost-reduction measures that they need to succeed.

Within the context of these circumstances and developments, COMSYS is continuing to take efficient and rational steps to achieve further increases in orders received, including optimizing our deployment of human resources, offering training and guidance to affiliates and subcontractors, and tailoring project execution to market requirements.



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1. Telecommunications equipment installation inside the Tokyo Opera City Tower.
2. Our work on Tokyo University's AV system harmonize high-tech with tradition.
3. The 1998 Nagano Winter Olympics Aqua Wing.
4. The Kurashiki Tivoli Park, Opened in 1997.

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## INTERNATIONAL OPERATIONS

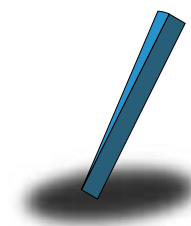
● To gain access to the competitive overseas markets, COMSYS has continually optimized its wealth of expertise harnessed from its participation in the domestic telecommunications market and construction projects, and which has been developed over the years since the Company's founding, as well as its acquired reliable technological expertise. The Company has assisted a number of countries, primarily in Asia, Africa, and in Central and South America, to develop the infrastructure they need to advance into the age of the information-intensive societies.

● During this fiscal year, we were very vigorous in our attempts to win contracts overseas, chiefly in Thailand, the Philippines, and the remainder of Southeast Asia. Although these markets were adversely affected by the poor economic conditions in Asia, consolidated orders received were still ¥4.0 billion (US\$38 million) with consolidated net revenues only 61.7 percent lower than in the previous fiscal year, standing at ¥3.0 billion (US\$28 million). In the coming fiscal term, the economy within the Asian region, this sector's primary market, is forecast to show some degree of recovery. However, the business environment is expected to remain severe. In addition to telecommunications facilities projects, the Company will bid on public-sector contracts such as wastewater management and sewerage projects, railroad communications projects, electrical tunnelling projects, and other projects with manageable risk levels. Within new fields, epitomized by information technology, we are striving energetically to minimize associated risks and with a view toward expanding orders received, the Company is also entering new regions, in addition to the areas, in which we have previously operated.

● Again, ISO certification will in the near future become a condition for bidding on construction projects internationally, and has already been achieved by our Overseas Division some three years ago. Furthermore, our overseas subsidiary, COMSYS Philippines, Inc. (CPI) obtained ISO 9001 in the previous fiscal year and COMSYS, therefore, faces no problem with meeting this requirement for future bids internationally.

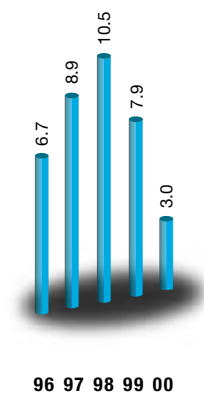
● To help develop multimedia infrastructure that will be compatible throughout the Asian region, COMSYS is participating in the newly organized Asia Multimedia Forum. This group's principal activities are the testing and trial of multimedia systems, the joint development of multimedia systems and equipment, and participation in other multimedia-related projects in Asia. The Asia Multimedia Forum also holds seminars, symposia, exhibitions, and disseminates information on multimedia-related activities and technology. We consider that our participation in this group has allowed COMSYS to make a more contribution in the building of the high-order information-intensive society in Asia.

● In Malaysia, a new seat of government and administrative capital to be known as Putrajaya is being constructed under the aegis of the Multimedia Super Corridor (MSC) project, as is Cyberjaya, a new proposed intelligent city. Our overseas subsidiary CMC Engineering SDN. BHD, is participating in the Information Technology System project within NTT's MSC Center Building. This is a full turnkey project covering everything from the design to the construction of a complete information technology system, including PABX, LANs, Internet servers, cable television, computer systems, and communications networks. The fact that the first foreign firm to establish operations in Cyberjaya (NTT) has used COMSYS's technology will be a strong sales point in winning future telecommunications-related contracts from other foreign firms that are expected to locate in Cyberjaya in the near future.



**1%**  
of Total Revenue

**Sales of Overseas  
Construction  
(¥ Billions)**



2



1



3



4

1. Installing underground cables in Bangkok.
2. Installing aerial CCP cables in a Bangkok suburb.
3. Installing aerial optical fiber cables in Bangkok.
4. Our CAD technology in use in the Philippines.



CONSTRUCTION REVENUES FOR LAST THREE YEARS

•  
•  
•  
•



Over ¥18,000 million  
Over ¥700 million  
Over ¥100 million  
Over ¥50 million  
Less than ¥50 million

Major Overseas Projects Completed

|             |   |
|-------------|---|
| Nigeria     | Ibadan new local line project   |
| Iraq        | Installation of telephone lines for 17 local exchanges  |
| Egypt       | Supply and installation of telecommunication cable network in Ismailia and Suez                     |
| Thailand    | Installation of digital exchange equipment  |
| Taiwan      | Installation of highway traffic control system  |
| Sri Lanka   | Installation of local telephone lines in the Badulla and Anuradhapura regions                       |
| Nepal       | Installation of microwave telecommunications system (inside and remote)                             |
| Thailand    | Fifth local cable network installation for TOT in Bangkok and provinces                             |
| Kuwait      | Installation of digital loop coil system in Farwaniah Exchange                                      |
| Tanzania    | Rehabilitation of telecommunications network in Dar es Salaam                                       |
| Thailand    | Seventh local cable network for TelecomAsia in Bangkok  |
| Thailand    | Seventh local cable network for TT&T in the provinces   |
| Philippines | Supply and installation of local cable network for Major Telecom Inc. in Mindanao                   |
| Philippines | Supply and installation of OSP equipment and optical fiber cable for ICC in Manila                  |
| Philippines | Installation of trunk lines and local network for GLOBE Telecom PHASE-2 in Manila and the provinces |
| Thailand    | The telephone expansion project to overcome short-term line shortage / B.E.1996-1998 for TOT (800K) |

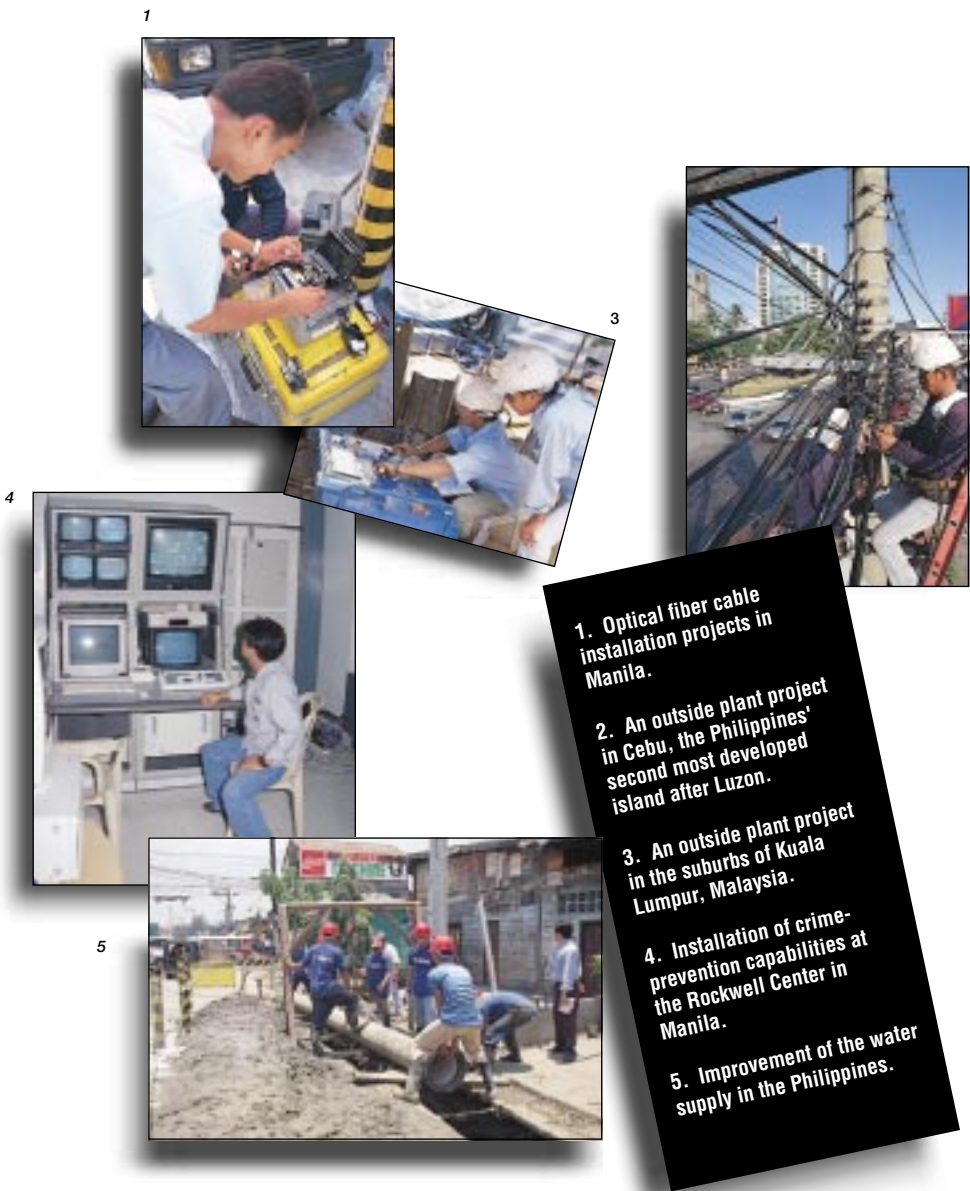
Overseas Projects in Progress (As of June 2000)

|             |   |
|-------------|---|
| Philippines | Supply and installation of local cable and junction network for GLOBE Telecom PHASE-4 in Manila and the provinces |
| Philippines | Supply contract for OSP & optical fiber cable (BAYANTEL 40K)  |
| Thailand    | Samut Prakarn Wastewater management project SC-27, 28, 29   |

- The Company has also participated in projects to expand digital switchboard equipment in Dar es Salaam, Tanzania, as well as installing state-of-the art digital switchboard equipment in Russia's third-largest city, Nizhnii Novgorod.
- In Thailand, we have been executing a Wastewater Management Project in Samut Prakan, our first sewerage contract outside the field of telecommunications construction. This fact is clear

showing that our Tunnel Works technology has won a reputation for reliability worldwide.

- Our vigorous efforts to expand orders, not only in the field of telecommunications construction, but also in the new field of wastewater management/sewer construction and other public works projects will continue as this market has considerable potential.



# INFORMATION SYSTEMS

● The Information Systems Sector is engaged in software development and sales of office equipment. Office-equipment sales are benefiting from the explosive expansion of the Internet, although the market environment in this area is adversely affected by declining equipment prices, the proliferation of discount outlets, and the intensification of price competition. Conditions in the software development market are similarly benefiting from the rapid proliferation of Internet connectivity and by the growth of e-commerce. Further, the computer networks needed to increase collaboration among companies and the data links required for application services are currently being put in place.

● This sector is meeting the challenges it faces in this market by offering "total solutions" to a broad spectrum of clients in a wide range of business activities. As a result, the Information Systems Sector posted consolidated orders received of ¥18.4 billion (US\$173 million). Consolidated net revenues, at ¥17.9 billion (US\$169 million), were 8.8 percent higher than in the previous term.

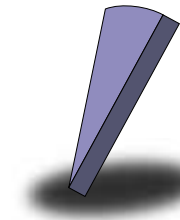
● Products in this sector include the Red Brick DataWarehouse, a quick-loading, high-performance, online analytical processing tool, as well as the Dream Web Server, an all-in-one server that incorporates the router, terminal adapter, digital service unit, firewall, and switching hub into a single PCI card. The Information Systems Sector also offers the Smart Care computer telephone integration (CTI) customer support system, which provides speedy, efficient, and reliable communications management for small and medium-sized businesses. Other products include the CTI+WINE small office CTI system, an economical system which is useful in

client management and cost reduction efforts, and the new BL-3000 Digital Monitoring System, which adds digital video monitoring capabilities to existing network systems. In the area of solution package software, COMSYS has Cable Manager, a resource management system, *The PERT*, a project-management package for the construction industry, and CONDUIT-CAD, a full-featured civil-engineering CAD system.

● Another of our products is the COMSYS WINE Dream Kit, an intranet software suite that offers e-mail, BBS, scheduling, remote access, and many other features. Our Voice Over Network uses a router to allow communications between multimedia networks. Thus, COMSYS offers a complete range of software-related services, ranging from custom programming through development of off-the-shelf software packages.

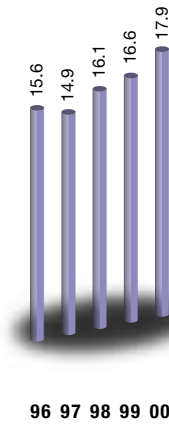
● Like the Domestic Construction and Engineering Sector, this sector is at the center of the Company's medium and long-term management strategy. In the future, emphasis will be on systems and software development, and on developing the technological capabilities needed to respond to demand in the business solutions field. While moving forward with opening up these areas, we will also strive to expand sales through proactive marketing to prospective clients.

● In the next fiscal year, customer needs will be evolving in response to the IT revolution. We will be striving to remain in advance of these developments, and to further strengthen our software development capabilities. Of course, we will persevere in our efforts to expand revenues.

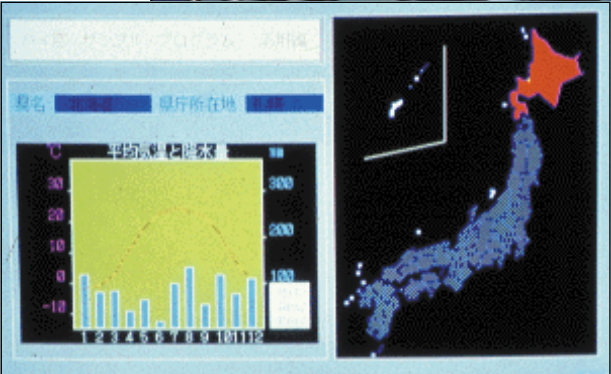


**8%**  
of Total Revenue

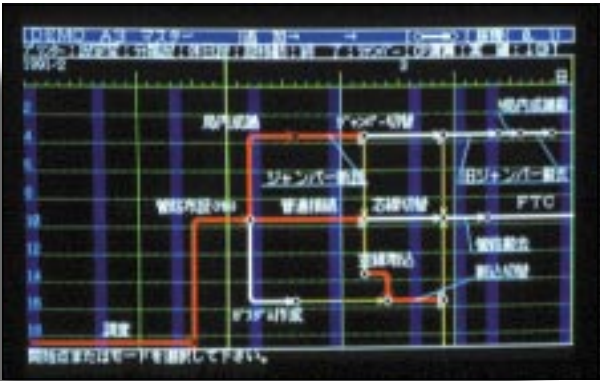
**Sales of Information Systems (¥ Billions)**



2



3



4

1. A TV studio utilizes high-speed election reporting software developed by COMSYS.
2. At work developing new software.
3. A screen shot from *Hi Mado*.
4. Our PC application software, *The PERT*.



BOARD OF DIRECTORS

MANAGEMENT  
As of June 29, 2000



*Chairman and Representative Director*  
Shozo Iwasaki



*President and Representative Director*  
Hironobu Takeuchi



*Senior Managing Director*  
Kiyoto Kuwabara



*Managing Director*  
Koji Miyata



*Managing Director*  
Takuo Sue



*Managing Director*  
Takaaki Okayama



*Managing Director*  
Ko Tamai



*Director*  
Michiaki Ono



*Director*  
Yasunobu Sasaki

CORPORATE AUDITORS

*Standing Auditors*  
Takashi Kato  
Masaharu Ogawa

*Auditors*  
Takashi Kakimi  
Tadashi Kumakura

CORPORATE EXECUTIVE OFFICERS

*Senior Vice Presidents*  
Masahide Kajiyama  
Tatsuya Sato  
Masayuki Nose  
Kyoichi Suzuki  
Syotaro Chikamoto  
Yoichi Chiba  
Kaoru Noda

*Executive Officers*  
Tadashi Matsumoto  
Kenji Kondo  
Mamoru Komiyama  
Suguru Sugiyama  
Yoshinobu Tanaka  
Yasuhiko Kubota  
Etsuo Shibata  
Yukuo Asakura

Toyohiro Goto  
Akira Takasaki  
Katsuo Takeda  
Masanori Fukuda  
Kazuo Takiguchi  
Toshimasa Hattori  
Takero Mizoguchi  
Minoru Sobami

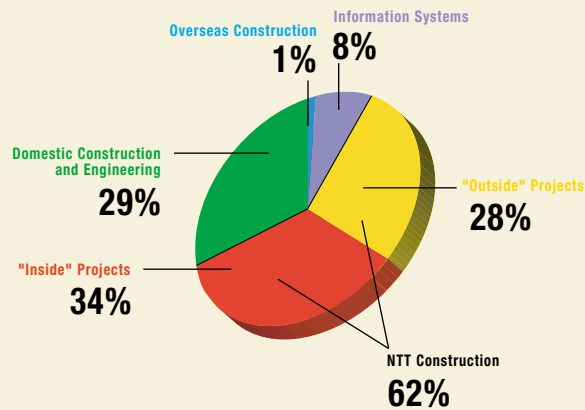
FINANCIAL SECTION



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# FINANCIAL REVIEW

## Nippon COMSYS Corporation and Consolidated Subsidiaries



Sales by Business Category  
Nippon COMSYS Corporation and Consolidated Subsidiaries

(Years ended 31st March, 1996, 1997, 1998, 1999 and 2000)

|                                       | Millions of yen |                 |                 |                 |                 | Thousands of U.S. dollars |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------------------|
|                                       | 1996            | 1997            | 1998            | 1999            | 2000            | 2000                      |
| <b>Construction Business</b>          |                 |                 |                 |                 |                 |                           |
| NTT Construction                      | ¥133,580        | ¥160,432        | ¥151,207        | ¥143,705        | ¥144,296        | \$1,361,283               |
| Domestic Construction and Engineering | 28,706          | 37,415          | 47,476          | 52,412          | 66,567          | 627,991                   |
| Overseas Construction                 | 6,697           | 8,926           | 10,545          | 7,850           | 3,007           | 28,368                    |
| <b>Other Business</b>                 |                 |                 |                 |                 |                 |                           |
| Information Systems                   | 15,612          | 14,863          | 16,085          | 16,555          | 17,880          | 168,679                   |
| <b>Total</b>                          | <b>¥184,595</b> | <b>¥221,636</b> | <b>¥225,313</b> | <b>¥220,522</b> | <b>¥231,750</b> | <b>\$2,186,321</b>        |

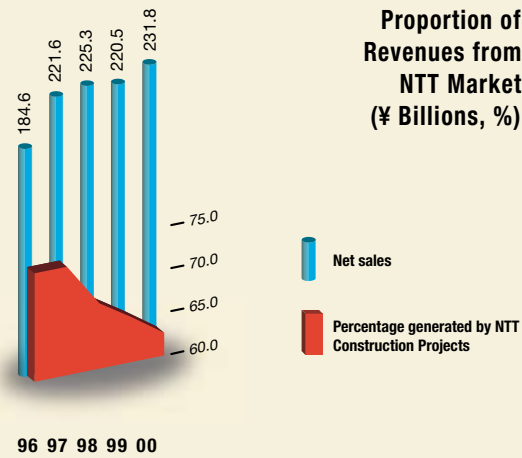
Note: Yen figures have been translated into U.S. dollars at the rate of ¥106.00=US\$1, rounded, for convenience only, from an approximate exchange rate of ¥106.15 to the dollar prevailing on 31st March, 2000.

### Revenues

The Japanese government again attempted to stimulate the economy through public spending during this fiscal year. These measures produced some transient upticks in capital investment in directly affected industries, but structural factors prevented economic recovery. The exploding information-technology (IT) revolution continued to fuel expansion in the telecommunications market, and despite poor conditions in other sectors of the industry this allowed COMSYS to achieve 5.1 percent growth in net sales, to ¥231,750 million (US\$2,186 million).

Revenues in the NTT Construction Sector edged up 0.4 percent to ¥144,296 million (US\$1,361 million), following two consecutive years of contraction. This is 62.3 percent of COMSYS's total revenues, down from 65.2 percent in the previous term and 67.1 percent in the fiscal year before that. This trend is consistent with and shows the effectiveness of COMSYS's policy of increasing non-NTT revenues. "Outside" projects accounted for ¥64,217 million (US\$606 million) of the sector's total, while "inside" projects accounted for the remaining ¥80,079 million (US\$755 million).

Revenues in the Domestic Construction and Engineering Sector show uninterrupted double-digit growth over the last five years.



In the period of this report, this figure increased a substantial 27.0 percent to ¥66,567 million (US\$628 million). Revenues in the Overseas Construction Sector plunged 61.7 percent, to ¥3,007 million (US\$28 million), as the result of the economic, monetary, and political woes plaguing Southeast Asia. This is the second consecutive year of dramatic declines in this figure, and brings revenues in this sector to only 28.5 percent of their level two years previously. Revenue growth in the Information Systems Sector accelerated from last year's 2.9 percent to 8.0 percent, as revenues in this sector grew to ¥17,880 million (US\$169 million).

### Results of Operations

COMSYS succeeded in reversing last year's increase in cost of sales as a percentage of sales, reducing this figure from 87.7 percent in the previous term to 86.8 percent in the period of this report. This combined with higher net sales to yield 12.7 percent growth in gross profit, to ¥30,606 million (US\$289 million). Selling, general, and administrative expenses rose by 16.6 percent to ¥15,047 million (US\$142 million), and as a percentage of gross profit grew from 47.5 percent in the previous term to 49.2 percent in this period. Operating income, then, rose 9.1 percent to ¥15,559 million (US\$147 million). However, a decline in interest and dividend income, together with an increase in other expenses, caused income before income taxes and other adjustments to net income to decline 3.5 percent to ¥13,054 million (US\$123 million).

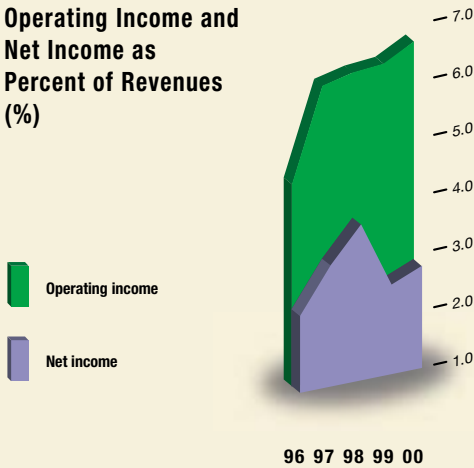
The effective income tax rate declined from last year's 58.2 percent to 47.0 percent, although deferred income taxes rose substantially as a result of our shift to deferred tax accounting in the period of this report. This, together with a large increase in minority interests, allowed 12.3 percent growth in net income, to ¥6,315 million (US\$60 million). The ratio of net income to net sales rose from 2.55 percent in the previous term to 2.72 percent, and return on equity increased from last term's 5.7 percent to 5.8 percent in the period of this report. Net income per share rose 8.8 percent to ¥46.73 (US\$0.44). Dividends were held steady at ¥10.00 (US\$0.09), as we allocated ¥5 per share through the midpoint of the next fiscal year to a fund for the retirement of treasury stock.

### Financial Position

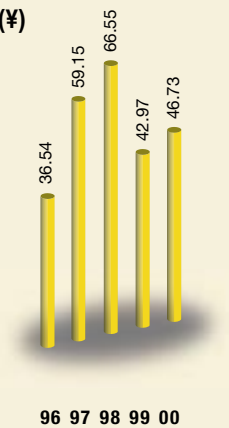
Cash and cash equivalents were increased by 20.1 percent to ¥41,892 million (US\$395 million). Short-term investments increased by ¥499 million (US\$5 million), and notes and accounts receivable fell 5.0 percent to ¥59,355 million (US\$560 million). The accumulated cost of construction in progress rose 15.0 percent to ¥22,488 million (US\$212 million). As a result of the implementation of deferred tax accounting, deferred income taxes in the amount of ¥2,504 million (US\$24 million) were posted. Other current assets declined by 14.8 percent to ¥1,723 million (US\$16 million), and allowance for doubtful receivables was increased substantially. Current assets, as a result of the foregoing, rose 8.0 percent to ¥128,481 million (US\$1,212 million).

Short-term bank loans in the amount of ¥632 million (US\$6 million) were posted, and trade payables, which ballooned by 21.5 percent during the previous term, increased by 6.4 percent to ¥35,119

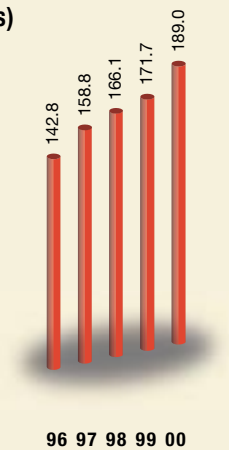
### Operating Income and Net Income as Percent of Revenues (%)



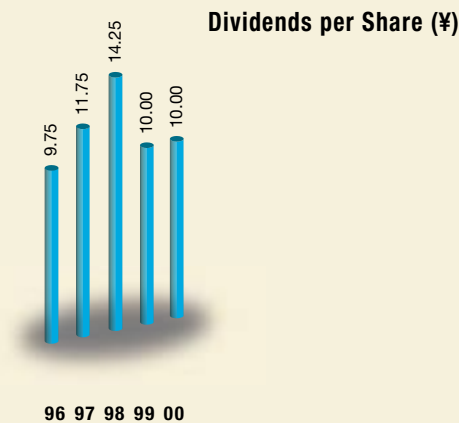
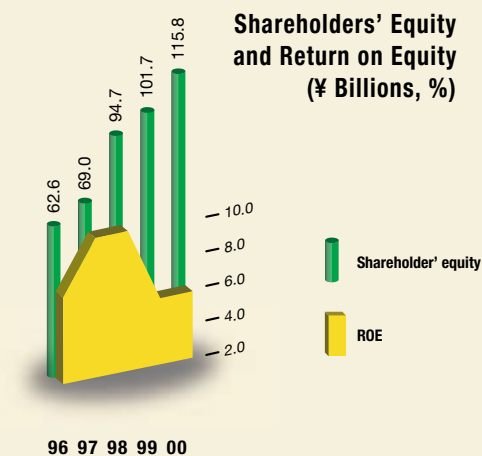
### Net Income per Share (¥)



### Total Assets (¥ Billions)







million (US\$331 million). In addition, other accounts payable in the amount of ¥4,412 million (US\$42 million) were posted. Advances received on construction in progress increased by 48.1 percent to ¥5,989 million (US\$57 million), while other current liabilities declined by 30.5 percent to ¥2,836 million (US\$27 million). Current liabilities, as a result, were reduced by 3.2 percent to ¥51,554 million (US\$486 million). The current ratio, as a result, rose to 2.5. Investments and other assets rose for the fourth consecutive term, edging up 0.6 percent to ¥21,854 million (US\$206 million). This was chiefly the result of decreases in investment securities and long-term loans receivable, offset by increases in deferred income taxes and other assets. Total property and equipment grew again during the period of this report, by 24.7 percent to ¥38,626 million (US\$364 million) after depreciation. As a result, total assets grew 10.1 percent to ¥188,961 million (US\$1,783 million). Shareholders' equity also increased again this term, growing by 13.9 percent to ¥115,834 million (US\$1,093 million). This was chiefly the result of the growth of retained earnings.

The capital ratio increased from 59.3 percent in the previous term to 61.3 percent. Based on the number of shares outstanding at March 31, 2000, shareholders' equity per share increased to ¥851.01 (US\$8.03) from the ¥765.74 recorded at the end of the previous fiscal year.

#### • Cash Flows •

Net cash provided by operating activities was ¥12,564 million (US\$119 million). Income before income taxes and other adjustments to net income of ¥13,054 million (US\$123 million) was adjusted upward by an increase in liability for prior service costs of ¥4,241 million (US\$40 million), and by an increase in trade payables of ¥3,498 million (US\$33 million). Downward adjustments included ¥8,793 million (US\$83 million) in cash and cash equivalents paid for income taxes, and a decrease in provision for accrued severance indemnities of ¥4,920 million (US\$46 million).

After acquisitions of property and equipment totaling ¥7,018 million (US\$66 million) and ¥1,120 million (US\$11 million) in collection of long-term loans, net cash used in investing activities stood at ¥7,826 million (US\$74 million).

Proceeds from the exercise of warrants in the amount of ¥6,214 million (US\$59 million) were posted, but redemption of notes with warrants totaled ¥7,373 million (US\$70 million). Acquisitions of treasury stock in the amount of ¥1,348 million (US\$13 million), were posted, as well as cash dividends paid in the amount of ¥1,364 million (US\$13 million). The figure of ¥3,626 million (US\$34 million) in net cash used in financing activities was posted.

Cash and cash equivalents at the beginning of the year were ¥34,887 million (US\$329 million). After ¥5,893 million (US\$56 million) in adjustments for newly consolidated subsidiaries and an increase of ¥1,112 million (US\$10 million) in cash and cash equivalents, cash and cash equivalents at the end of the year stood at ¥41,892 million (US\$395 million).

## SELECTED FINANCIAL AND OPERATING DATA

Nippon COMSYS Corporation and Consolidated Subsidiaries

Years ended 31st March, 1996, 1997, 1998, 1999 and 2000

|  | Millions of yen |          |          |          |                 | Thousands of U.S. dollars |
|--|-----------------|----------|----------|----------|-----------------|---------------------------|
|  | 1996            | 1997     | 1998     | 1999     | 2000            | 2000                      |
| <b>Results of Operations:</b>                                  |                 |          |          |          |                 |                           |
| Net sales  | ¥184,595        | ¥221,636 | ¥225,313 | ¥220,522 | <b>¥231,750</b> | <b>\$2,186,321</b>        |
| Operating income   | 8,737           | 13,733   | 14,348   | 14,261   | <b>15,559</b>   | <b>146,783</b>            |
| Income before income taxes and other adjustments to net income | 8,332           | 13,675   | 14,333   | 13,522   | <b>13,054</b>   | <b>123,151</b>            |
| Net income   | 4,156           | 6,831    | 8,309    | 5,625    | <b>6,315</b>    | <b>59,575</b>             |

#### Financial Position:

|                        |          |          |          |          |                 |                    |
|------------------------|----------|----------|----------|----------|-----------------|--------------------|
| Total assets           | ¥142,765 | ¥158,839 | ¥166,067 | ¥171,669 | <b>¥188,961</b> | <b>\$1,782,651</b> |
| Property and equipment | 25,031   | 26,471   | 27,334   | 30,976   | <b>38,626</b>   | <b>364,396</b>     |
| Long-term debt         | 24,995   | 25,128   | 16,791   | 9,409    | <b>9,312</b>    | <b>87,849</b>      |
| Shareholders' equity   | 62,622   | 68,979   | 94,654   | 101,721  | <b>115,834</b>  | <b>1,092,774</b>   |

#### Per Share of Common Stock (in yen and U.S. dollars):

|                      |         |         |         |         |                |                |
|----------------------|---------|---------|---------|---------|----------------|----------------|
| Net income           | ¥ 36.54 | ¥ 59.15 | ¥ 66.55 | ¥ 42.97 | <b>¥ 46.73</b> | <b>\$ 0.44</b> |
| Cash dividends       | 9.75    | 11.75   | 14.25   | 10.00   | <b>10.00</b>   | <b>0.09</b>    |
| Shareholders' equity | 543.96  | 595.77  | 725.59  | 765.74  | <b>851.01</b>  | <b>8.03</b>    |

#### Financial Ratios:

|                               |       |       |       |       |              |  |
|-------------------------------|-------|-------|-------|-------|--------------|--|
| Operating income to net sales | 4.73% | 6.20% | 6.37% | 6.47% | <b>6.71%</b> |  |
| Net income to net sales       | 2.25  | 3.08  | 3.69  | 2.55  | <b>2.72</b>  |  |
| Capital ratio                 | 43.9  | 43.4  | 57.0  | 59.3  | <b>61.3</b>  |  |
| Return on equity              | 6.8   | 10.4  | 10.2  | 5.7   | <b>5.8</b>   |  |

#### Other Statistics:

|                                     |          |          |          |          |                 |                    |
|-------------------------------------|----------|----------|----------|----------|-----------------|--------------------|
| New orders received during the year | ¥188,978 | ¥226,643 | ¥235,923 | ¥229,875 | <b>¥228,518</b> | <b>\$2,155,830</b> |
| Contract backlog at end of the year | 53,378   | 58,385   | 68,995   | 78,348   | <b>76,781</b>   | <b>724,349</b>     |
| Common stock price range (in yen):  |          |          |          |          |                 |                    |
| High                                | ¥ 1,450  | ¥ 1,560  | ¥ 2,020  | ¥ 1,710  | <b>¥ 2,700</b>  |                    |
| Low                                 | 980      | 1,190    | 1,240    | 1,280    | <b>1,420</b>    |                    |

Note: Yen figures have been translated into U.S. dollars at the rate of ¥106.00=US\$1, rounded, for convenience only, from an approximate exchange rate of ¥106.15 to the dollar prevailing on 31st March, 2000.

**CONSOLIDATED BALANCE SHEETS**  
Nippon COMSYS Corporation and Consolidated Subsidiaries  
As of 31st March, 1999 and 2000

|  | Millions of yen |          | Thousands of<br>U.S. dollars (Note 1) |
|--|-----------------|----------|---------------------------------------|
| ASSETS                                       | 1999            | 2000     | 2000                                  |
| <b>Current Assets:</b>                       |                 |          |                                       |
| Cash and cash equivalents                    | ¥ 34,887        | ¥ 41,892 | \$ 395,208                            |
| Short-term investments (Note 4)              | —               | 499      | 4,707                                 |
| Notes and accounts receivable—trade          | 62,462          | 59,355   | 559,953                               |
| Inventories:                                 |                 |          |                                       |
| Accumulated cost of construction in progress | 19,549          | 22,488   | 212,151                               |
| Other  | 177             | 169      | 1,594                                 |
| Deferred income taxes (Note 7)               | —               | 2,504    | 23,623                                |
| Other current assets                         | 2,023           | 1,723    | 16,255                                |
| Less: Allowance for doubtful receivables     | (120)           | (149)    | (1,406)                               |
| Total current assets                         | 118,978         | 128,481  | 1,212,085                             |
|  |                 |          |                                       |
| <b>Investments and Other Assets:</b>         |                 |          |                                       |
| Investment securities:                       |                 |          |                                       |
| Unconsolidated subsidiaries and affiliates   | 4,650           | 1,535    | 14,481                                |
| Other (Note 4)                               | 7,671           | 8,136    | 76,755                                |
| Long-term loans receivable                   | 4,935           | 4,132    | 38,981                                |
| Deferred income taxes (Note 7)               | —               | 2,309    | 21,783                                |
| Other assets                                 | 4,512           | 5,875    | 55,425                                |
| Less: Allowance for doubtful receivables     | (53)            | (133)    | (1,255)                               |
| Total investments and other assets           | 21,715          | 21,854   | 206,170                               |
|  |                 |          |                                       |
| <b>Property and Equipment:</b>               |                 |          |                                       |
| Land (Note 5)                                | 17,906          | 23,585   | 222,500                               |
| Buildings and structures (Note 5)            | 13,493          | 17,125   | 161,557                               |
| Machinery and equipment                      | 8,484           | 7,596    | 71,660                                |
| Construction in progress                     | 1,828           | 2,076    | 19,585                                |
| Less: Accumulated depreciation               | (10,735)        | (11,756) | (110,906)                             |
| Total property and equipment                 | 30,976          | 38,626   | 364,396                               |
|  | ¥171,669        | ¥188,961 | \$1,782,651                           |

See Notes to the Consolidated Financial Statements.

## LIABILITIES AND SHAREHOLDERS' EQUITY

| <b>Current Liabilities:</b>                               |        |        |          |
|---|--------|--------|----------|
| Short-term bank loans (Note 5)                            | ¥ —    | ¥ 632  | \$ 5,962 |
| Current portion of notes and notes with warrants (Note 5) | 7,373  | —      | —        |
| Accounts payable:   |        |        |          |
| Trade   | 33,001 | 35,119 | 331,311  |
| Other   | —      | 4,412  | 41,623   |
| Advances received on construction in progress             | 4,044  | 5,989  | 56,500   |
| Income taxes payable                                      | 3,826  | 2,566  | 24,207   |
| Warrants  | 917    | —      | —        |
| Other current liabilities                                 | 4,080  | 2,836  | 26,755   |
| Total current liabilities                                 | 53,241 | 51,554 | 486,358  |

### Long-Term Liabilities:

|   |        |               |                |
|---|--------|---------------|----------------|
| Convertibles bonds (Note 5)                                     | 9,409  | <b>9,312</b>  | <b>87,849</b>  |
| Accrued severance indemnities                                   | 5,472  | <b>1,883</b>  | <b>17,764</b>  |
| Provision for possible losses arising from overseas investments | 1,592  | <b>1,442</b>  | <b>13,604</b>  |
| Other long-term liabilities                                     | —      | <b>1,945</b>  | <b>18,349</b>  |
| Total long-term liabilities                                     | 16,473 | <b>14,582</b> | <b>137,566</b> |

### Contingent Liabilities (Note 6)

|  |     |              |               |
|--|-----|--------------|---------------|
| <b>Minority Interests in Consolidated Subsidiaries</b> | 234 | <b>6,991</b> | <b>65,953</b> |
|--|-----|--------------|---------------|

**Shareholders' Equity (Note 10):**

|  |          |                 |                    |
|--|----------|-----------------|--------------------|
| Common stock, par value ¥50 per share:       |          |                 |                    |
| Authorized                                   |          |                 |                    |
| — 250,000 thousand shares (31st March, 1999) |          |                 |                    |
| — 249,665 thousand shares (31st March, 2000) |          |                 |                    |
| Issued                                       |          |                 |                    |
| — 132,841 thousand shares (31st March, 1999) | 27,983   | —               | —                  |
| — 137,166 thousand shares (31st March, 2000) | —        | <b>31,141</b>   | <b>293,783</b>     |
| Additional paid-in capital                   | 26,666   | <b>30,736</b>   | <b>289,962</b>     |
| Retained earnings                            | 47,074   | <b>55,477</b>   | <b>523,368</b>     |
|  | 101,723  | <b>117,354</b>  | <b>1,107,113</b>   |
| Treasury stock, at cost                      | (2)      | <b>(1,520)</b>  | <b>(14,339)</b>    |
| Total shareholders' equity                   | 101,721  | <b>115,834</b>  | <b>1,092,774</b>   |
|  | ¥171,669 | <b>¥188,961</b> | <b>\$1,782,651</b> |



CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Nippon COMSYS Corporation and Consolidated Subsidiaries  
Years ended 31st March, 1999 and 2000

|  | Millions of yen |          | Thousands of<br>U.S. dollars (Note 1) |
|--|-----------------|----------|---------------------------------------|
|  | 1999            | 2000     | 2000                                  |
| <b>Net Sales:</b>  |                 |          |                                       |
| Construction contracts   | ¥203,967        | ¥213,870 | \$2,017,642                           |
| Other  | 16,555          | 17,880   | 168,679                               |
|  | 220,522         | 231,750  | 2,186,321                             |
| <b>Cost of Sales:</b>  |                 |          |                                       |
| Construction contracts   | 179,502         | 185,932  | 1,754,076                             |
| Other  | 13,853          | 15,212   | 143,509                               |
|  | 193,355         | 201,144  | 1,897,585                             |
| Gross profits  | 27,167          | 30,606   | 288,736                               |
| <b>Selling, General and Administrative Expenses</b>            | 12,906          | 15,047   | 141,953                               |
| Operating income   | 14,261          | 15,559   | 146,783                               |
| <b>Other Income (Expenses):</b>                                |                 |          |                                       |
| Interest and dividend income                                   | 636             | 470      | 4,434                                 |
| Interest expenses  | (14)            | (13)     | (123)                                 |
| Equity in earnings of affiliated companies                     | 362             | —        | —                                     |
| Other, net (Note 11)   | (1,723)         | (2,962)  | (27,943)                              |
|  | (739)           | (2,505)  | (23,632)                              |
| Income before income taxes and other adjustments to net income | 13,522          | 13,054   | 123,151                               |
| <b>Income Taxes (Note 7):</b>                                  |                 |          |                                       |
| Current  | 7,866           | 7,218    | 68,094                                |
| Deferred   | —               | (1,084)  | (10,226)                              |
|  | 7,866           | 6,134    | 57,868                                |
| <b>Minority Interests</b>                                      | 31              | 605      | 5,708                                 |
| <b>Net Income</b>  | 5,625           | 6,315    | 59,575                                |
| <b>Retained Earnings:</b>                                      |                 |          |                                       |
| Balance at beginning   | 43,161          | 47,074   | 444,094                               |
| Increases arising from:  |                 |          |                                       |
| Adoption of interperiod allocation of income taxes, net        | —               | 3,208    | 30,264                                |
| Newly consolidated subsidiaries, net                           | —               | 1,050    | 9,906                                 |
|  | —               | 4,258    | 40,170                                |
| Appropriations:  |                 |          |                                       |
| Cash dividends   | 1,599           | 1,350    | 12,736                                |
| Bonuses to directors   | 113             | 155      | 1,462                                 |
| Retirement of treasury stocks                                  | —               | 665      | 6,273                                 |
|  | 1,712           | 2,170    | 20,471                                |
| Balance at end   | ¥ 47,074        | ¥ 55,477 | \$ 523,368                            |
|  | Yen             |          | U.S. dollars (Note 1)                 |
| <b>Per Share:</b>  |                 |          |                                       |
| Net income   | ¥ 42.97         | ¥ 46.73  | \$ 0.44                               |
| Cash dividends   | 10.00           | 10.00    | 0.09                                  |
| Weighted average number of shares (in thousands)               | 130,890         | 135,136  |                                       |

See Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Nippon COMSYS Corporation and Consolidated Subsidiaries  
Year ended 31st March, 2000

|  | Millions of yen | Thousands of<br>U.S. dollars (Note 1) |
|--|-----------------|---------------------------------------|
| <b>Cash Flows from Operating Activities:</b>   |                 |                                       |
| Income before income taxes and other adjustments to net income                                     | ¥13,054         | \$123,151                             |
| Depreciation and amortization  | 1,665           | 15,708                                |
| Write-down of investments and other assets   | 311             | 2,934                                 |
| Increase in allowance for doubtful receivables   | 81              | 764                                   |
| Decrease in provision for accrued severance indemnities  | (4,920)         | (46,415)                              |
| Increase in liability for prior service cost   | 4,241           | 40,009                                |
| Decrease in provision for possible losses arising from overseas investments                        | (150)           | (1,415)                               |
| Interest and dividends received  | (470)           | (4,434)                               |
| Interest expenses  | 57              | 538                                   |
| Loss on disposal of property and equipment   | 68              | 641                                   |
| Gain on sale of securities   | (124)           | (1,170)                               |
| Decrease in receivables, trade   | 2,922           | 27,566                                |
| Decrease in inventories  | 458             | 4,321                                 |
| Increase in payables, trade  | 3,498           | 33,000                                |
| Directors’ bonuses paid  | (182)           | (1,717)                               |
| Other  | 443             | 4,179                                 |
|  | 20,952          | 197,660                               |
| Cash and cash equivalents received on interest and dividends income                                | 462             | 4,359                                 |
| Cash and cash equivalents paid for interest expenses   | (57)            | (538)                                 |
| Cash and cash equivalents paid for income taxes  | (8,793)         | (82,953)                              |
| Net cash provided by operating activities  | 12,564          | 118,528                               |
| <b>Cash Flows from Investing Activities:</b>   |                 |                                       |
| Increase in short-term investments, net  | (48)            | (453)                                 |
| Acquisitions of property and equipment   | (7,018)         | (66,207)                              |
| Acquisitions of other assets   | (702)           | (6,623)                               |
| Proceeds from sale of property   | 166             | 1,566                                 |
| Increase in long-term loans  | (693)           | (6,538)                               |
| Collection of long-term loans  | 1,120           | 10,566                                |
| Other  | (651)           | (6,141)                               |
| Net cash used in investing activities  | (7,826)         | (73,830)                              |
| <b>Cash Flows from Financing Activities:</b>   |                 |                                       |
| Increase in short-term borrowings, net   | 265             | 2,500                                 |
| Repayment of long-term debt  | (20)            | (189)                                 |
| Redemption of notes with warrants  | (7,373)         | (69,556)                              |
| Proceeds from exercise of warrants   | 6,214           | 58,623                                |
| Acquisitions of treasury stock   | (1,348)         | (12,717)                              |
| Cash dividends paid  | (1,364)         | (12,868)                              |
| Net cash used in financing activities  | (3,626)         | (34,207)                              |
| <b>Net Increase in Cash and Cash Equivalents</b>   | 1,112           | 10,491                                |
| <b>Cash and Cash Equivalents at Beginning of Year</b>  | 34,887          | 329,123                               |
| <b>Cash and Cash Equivalents at Beginning of Year Adjusted for Newly Consolidated Subsidiaries</b> | 5,893           | 55,594                                |
| <b>Cash and Cash Equivalents at End of Year</b>  | ¥41,892         | \$395,208                             |
| <b>Supplemental Disclosure of Cash Flow Information:</b>   |                 |                                       |
| Conversion of convertible bonds to common stock  | ¥ 97            | \$ 915                                |

See Notes to the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
Nippon COMSYS Corporation and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from accounts and records maintained in Japanese yen by Nippon COMSYS Corporation (the “Company”) and its subsidiaries (together, hereinafter referred to as the “Companies”) in conformity with accounting principles and practices generally accepted in Japan (hereinafter referred to as the “GAAP of Japan”), which are different in certain respects as to application and disclosure requirements from International Accounting Standards. Also, the accompanying consolidated financial statements have been prepared from the consolidated financial statements filed with the Ministry of Finance of Japan as required by the Securities and Exchange Laws of Japan. Certain reclassifications of account balances have been made so as to present the financial statements in a form that is more familiar to readers outside Japan.

The accounts and records of the Companies are maintained in Japanese yen. The accompanying consolidated financial statements have been presented in Japanese yen and have also been presented in U.S. dollars by translating all Japanese yen amounts using the rate of ¥106.00 to US\$1. The presentation of such dollar amounts is solely for the convenience of the readers and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at that or at any other rate.

Effective from a financial year beginning on and from 1st April, 1999, the regulations under the Securities and Exchange Laws of Japan have required the preparation of consolidated statements of cash flows, which were not prepared by the Company for the year ended 31st March, 1999.

Certain reclassifications have been made in the 1999 consolidated financial statements to conform to the classifications used in 2000.

2. Summary of Significant Accounting Policies

(a) Principle of consolidation

The consolidated financial statements as at, and for the years ended, 31st March, 1999 and 2000, include the accounts of the Company, Okoshi Denken Co., Ltd., and Tokyo Denwa Shisetsu Co., Ltd.

Effective from the year ended 31st March, 2000, Tsuken Kiko Co., Ltd., COMSYS Techno Co., Ltd., COMSYS Tec Co., Ltd., and Taiei Seisakusho Co., Ltd., have been consolidated, since their aggregate sales, total assets, net income and retained earnings have become material. Also, effective from the year ended 31st March, 2000, Tokyo Tsuken Co., Ltd., and Nitto Tsuken Co., Ltd., to which the equity method was applied for the year ended 31st March, 1999, have been consolidated, since the GAAP of Japan have required consolidation of substantially controlled companies (including direct and indirect ownership less than 50%) whose aggregate sales, total assets, net income and retained earnings are material.

The financial year-end of consolidated subsidiaries is 31st December. Accounts of those subsidiaries have been adjusted for significant transactions to properly reflect their financial positions at 31st March, 2000, and the results of operations for the year ended 31st March, 2000. Okoshi Denken Co., Ltd., Tokyo Denwa Shisetsu Co., Ltd., COMSYS Tec Co., Ltd., and Taiei Seisakusho Co., Ltd., changed their financial year-end from 31st March to 31st December in 1999. Accordingly, their financial periods ended in 1999 were the nine months from 1st April to 31st December, 1999.

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Companies have been eliminated.

The accounts of other subsidiaries were not consolidated, since their aggregate sales, total assets, net income and retained earnings have little affect upon the total consolidated results of operations and assets. Investments in non-consolidated subsidiaries and affiliates are carried at cost due to their immateriality.

(b) Point of sales—construction contracts

Construction contracts of the Companies are accounted for by the completed-contract method. The accumulated cost of uncompleted construction is shown as “accumulated cost of construction in progress” and the related billings (advances received) on uncompleted construction contracts are shown as “advances received on construction in progress” in the accompanying balance sheets.

(c) Cash and cash equivalents

For purposes of the consolidated statements of cash flows, the Companies consider all highly liquid debt instruments and investment trusts with maturities of three months or less to be cash equivalents.

(d) Short-term investments and investment securities

Short-term investments and investment securities listed on stock exchanges (excluding securities trading on over-the-counter markets) are stated at the lower of cost or market, cost being determined by the periodic average method. In accordance with Japanese accounting practice, the comparison of cost with market value is made for each security individually and is not made between the aggregate cost and the aggregate market value of the securities. Other securities without market quotations on stock exchanges and investments in subsidiaries and affiliates are stated at cost, determined by the periodic average method.

(e) Accumulated cost of construction in progress

In connection with (b) above, “accumulated cost of construction in progress” is stated on an individual project basis.

(f) Inventories

Inventories (excluding (e) above) are stated at cost, by the moving average method.

(g) Property and equipment

Property and equipment are stated at cost. Depreciation is computed primarily by the declining-balance method, as prescribed by Japanese income tax laws, using estimated useful lives of assets principally as follows:

|                          |               |
|--------------------------|---------------|
| Buildings and structures | 8 to 50 years |
| Machinery and equipment  | 3 to 10 years |

(h) Intangible assets and deferred charges

Intangible assets including software are amortized by the straight-line method over the estimated useful lives of assets, primarily as prescribed by Japanese income tax laws. Research and development costs are charged to income as incurred.

(i) Leases

Financial leases that do not transfer ownership of the property to lessee are accounted for as transactions of rent. Under GAAP of Japan, financial leases in which ownership of the property is deemed to be transferred to the lessee are treated as capital leases, while it is permitted to treat others as operating leases if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements.

(j) Liability for severance indemnities

Employees of the Companies are usually entitled to lump-sum severance indemnities determined by reference to their current basic rate of pay, length of service and conditions under which the termination occurs.

On 1st February, 1997, the Company established a contributory employees’ pension fund with the permission of the Minister of Health and Welfare of Japan, composed of a portion covering benefits for the severance indemnities and another portion covering social security benefits, to which the Company and employees make contributions. The Company’s policy for this fund is to contribute and charge to income normal costs as accrued on the basis of an accepted actuarial method. The unrecognized prior service cost is primarily contributed at half of the amount in each year and amortized as incurred (See Note 3).

The assets of this fund as at 31st March, 2000, were ¥29,195 million (US\$275,425 thousand).

Before the contributory employees’ pension fund was established, severance indemnities and benefits had been accounted for and reserved as “accrued severance indemnities” and funded through tax qualified pension plans. On its establishment, all assets of the tax qualified pension plans were transferred to the contributory employees’ pension fund, as well as the remaining balance of “accrued severance indemnities” that had been reversed over 10 years until the financial year ended 31st March, 1999. In the financial year ended 31st March, 2000, the Company reversed the remaining balance of “accrued severance indemnities” as of 31st March, 2000, due to an accounting change (See Note 3).

Consolidated subsidiaries provide for severance indemnities based on the liability if all eligible employees were to voluntarily terminate employment on the balance sheet date. In addition, six of the subsidiaries have funds for tax qualified pension plans and two of the subsidiaries have funded non-contributory pension plans.

Most of the Companies provide for lump-sum retirement provisions for directors and corporate auditors at the amounts that would accrue if all directors and statutory auditors terminated their services on the balance sheet date. Payments of these allowances are subject to approval at the shareholders’ meeting.

(k) Warrants

The warrants are accounted for separately from the notes and treated as a current liability for the purpose of balance sheets, in conformity with the GAAP of Japan.

(l) Income taxes

Deferred tax assets and liabilities arising from temporary differences between financial and tax reporting are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. For the purpose of preparing consolidated financial statements, deferred tax assets and liabilities also arose from the elimination of unrealized profits among the Companies and the adjustment of allowance for doubtful receivables caused by the offsetting of inter-company receivables and payables.

Effective from the financial year beginning on and from 1st April, 1999, the GAAP of Japan have required the adoption of interperiod allocation of income taxes, which was not adopted by the Companies for the year ended 31st March, 1999. The effect of this change was to increase “net income” by ¥1,063 million (US\$10,028 thousand) and “retained earnings—balance at end” by ¥4,271 million (US\$40,292 thousand) for the year ended 31st March, 2000, respectively.

(m) Appropriations of retained earnings

Appropriations of retained earnings of the Company at each year-end are reflected in the consolidated financial statements for the following year upon shareholders’ approval (See Note 12 (a)).

(n) Net income and cash dividends per share

The computations of net income per share shown in the consolidated statements of income and retained earnings are based on the weighted average number of shares outstanding during each year. Cash dividends per Share are based on the cash dividends applicable to the respective years, including dividends to be paid after the end of the year.

3. Accounting Change

In November, 1999, the Company changed a contract condition of contributing unrecognized prior service cost from installment payments over 10 years to payments at primarily one half of the amount in each year. According with this change, the Company also changed its basis of amortization of unrecognized prior service cost from a cash basis (the amount to be contributed by installment payments over 10 years had been amortized in each year) to an accrual basis (amortized as incurred), with effect from the year ended 31st March, 2000. These changes were made to strengthen the financial structure of the Company and employees’ pension fund, and to present fairly periodic pension cost. The cumulative effect on prior years of this accounting change amounted to ¥7,100 million (US\$66,981 thousand) and was charged to “Other Income (Expenses)—Other, net” (See Note 11).

Due to this accounting change, the Company reversed the remaining balance of “accrued severance indemnities” amounted to ¥4,312 million (US\$40,679 thousand) and charged to “Other Income (Expenses)—Other, net” in conformity with the GAAP of Japan (See Note 11).

As a result of this accounting change, “income before income taxes and other adjustments to net income” decreased by ¥2,788 million (US\$26,302 thousand).

4. Market Value Information of Securities

At 31st March, 2000, book and aggregate market values of short-term investments and investment securities, respectively, were as follows:

|                         | Millions of yen |              | Thousands of U.S. dollars |              |
|-------------------------|-----------------|--------------|---------------------------|--------------|
|                         | Book value      | Market value | Book value                | Market value |
| Short-term investments: |                 |              |                           |              |
| Bonds and others        | ¥ 307           | ¥ 284        | \$ 2,896                  | \$ 2,679     |
| Investment securities:  |                 |              |                           |              |
| Stocks                  | 3,828           | 12,249       | 36,113                    | 115,557      |
| Bonds                   | 1,954           | 2,172        | 18,434                    | 20,490       |
| Others                  | 1,064           | 1,023        | 10,038                    | 9,651        |
|                         | ¥7,153          | ¥15,728      | \$67,481                  | \$148,377    |

From above table, mainly certain securities were excluded as follows:

|                        | Millions of yen | Thousands of U.S. dollars |
|------------------------|-----------------|---------------------------|
| Investment securities: |                 |                           |
| Unlisted common stocks | ¥1,141          | \$10,764                  |



5. Short-Term Bank Loans and Long-Term Debt:

The weighted average interest rates of short-term bank loans as at the year ended 31st March, 2000, was approximately 1.128 per cent.

At 31st March, 2000, short-term bank loans of two consolidated subsidiaries amounting to ¥380 million were secured. A summary of assets pledged as collateral consisted of the following:

|  | Millions of yen | Thousands of<br>U.S. dollars |
|--|-----------------|------------------------------|
| Buildings and structures,<br>net of accumulated depreciation | ¥198            | \$1,868                      |
| Land   | 33              | 311                          |
|  | ¥231            | \$2,179                      |

At 31st March, 1999 and 2000, long-term debt consisted of the following:

|   | Millions of yen | Thousands of<br>U.S. dollars |
|---|-----------------|------------------------------|
| 31st March  | 19992000        | 2000                         |
| 0.5 per cent. Swiss franc notes due 1999                  | ¥ 7,373         | ¥ — \$ —                     |
| 0.3 per cent. yen unsecured<br>convertible bonds due 2003 | 9,409           | 9,31287,849                  |
|   | ¥16,782         | ¥9,312\$87,849               |
| Current portion   | 7,373           | — —                          |
|   | ¥ 9,409         | ¥9,312\$87,849               |

|  |                       |
|--|-----------------------|
| Convertible bonds  |                       |
| At 31st March, 2000, unsecured convertible bonds consisted of the following: |                       |
| The original amount issued at 24th June, 1996                                | ¥10,000 million       |
| Balance as at 31st March, 2000   | ¥9,312 million        |
| Interest rate  | 0.3%                  |
| Maturity date  | 31st March, 2003      |
| Conversion period:   |                       |
| On and after   | 1st August, 1996      |
| Up to and including  | 28th March, 2003      |
| Conversion price:  |                       |
| At 31st March, 2000  | ¥1,435<br>(US\$13.54) |

The number of shares of common stock required for conversion of the above unsecured convertible bonds outstanding at 31st March, 2000, at the current conversion price would have been approximately 6,489 thousand. The conversion price is subject to adjustment under certain circumstances, including stock splits pursuant to the relevant agreement.

6. Contingent Liabilities

At 31st March, 1999 and 2000, contingent liabilities consisted of the following:

|  | Millions of yen | Thousands of<br>U.S. dollars |
|--|-----------------|------------------------------|
| 31st March                                       | 19992000        | 2000                         |
| Guarantee of loans borrowed by:                  |                 |                              |
| Thai Telecommunications Engineering<br>Co., Ltd. | ¥3,596          | ¥2,008\$18,943               |
| COMSYS-TTEC J.V.                                 | 2,748           | 2,45823,189                  |
| COMSYS Philippines, Inc.                         | 772             | 6806,415                     |
| Other  | 1,102           | 1311,236                     |
|  | ¥8,218          | ¥5,277\$49,783               |

7. Income Taxes

The Companies are subject to corporate (national), inhabitant and enterprise (local) taxes based upon taxable income, which resulted in statutory tax rates of approximately 42%, in aggregate, for both years ended 31st March, 1999 and 2000. The effective tax rate reflected in the accompanying consolidated statements of income and retained earnings for the year ended 31st March, 1999, differs from the statutory tax rate primarily due to such items as permanently non-deductible expenses and timing differences in recognizing certain income and expense items for financial and tax reporting purposes.

The differences between the statutory tax rate and effective tax rate reflected in the consolidated statements of income for the ended 31st March, 2000, primarily consisted of the following:

|  |       |
|--|-------|
| Statutory tax rate of the Company                          | 42.0% |
| Effects of:  |       |
| Expenses permanently not deductible for income tax purpose | 3.1   |
| Dividend income deductible for income tax purpose          | (0.4) |
| Other, net   | 2.3   |
| Effective tax rate   | 47.0% |

Deferred tax assets and liabilities of the Companies for the year ended 31st March, 2000, primarily consisted of the following:

|  | Millions of yen | Thousands of<br>U.S. dollars |
|--|-----------------|------------------------------|
| Deferred tax assets:   |                 |                              |
| Accrued bonuses  | ¥1,204          | \$11,358                     |
| Accrued enterprise tax   | 196             | 1,849                        |
| Accrued severance indemnities                                      | 657             | 6,198                        |
| Accrued prior service cost   | 1,781           | 16,802                       |
| Provision for possible losses arising<br>from overseas investments | 606             | 5,717                        |
| Other  | 426             | 4,019                        |
|  | 4,870           | 45,943                       |

|                                    |        |          |
|------------------------------------|--------|----------|
| Deferred tax liabilities:          |        |          |
| Deferred gain on exchange of lands | (57)   | (537)    |
|                                    | (57)   | (537)    |
| Net deferred tax assets            | ¥4,813 | \$45,406 |

8. Leases as Lessee

The Companies lease mainly machinery and equipment by financial leases. Pro forma amounts of the acquisition costs (including the interest portion thereon), accumulated depreciation (depreciation expenses of the leased property were computed by the straight-line method over the respective lease terms) and net book value of leased property as of 31st March, 1999 and 2000, which would have been reflected in the consolidated balance sheets if capitalized were as follows:

|                          | Millions of yen | Thousands of<br>U.S. dollars |
|--------------------------|-----------------|------------------------------|
| 31st March               | 19992000        | 2000                         |
| Acquisition costs        | ¥1,055          | ¥1,167\$11,010               |
| Accumulated depreciation | 613             | 6846,453                     |
| Net book value           | ¥ 442           | ¥ 483\$ 4,557                |

Lease payments relating to financial leases accounted for as transactions of rent amounted to ¥209 million and ¥221 million (US\$2,085) for the years ended 31st March, 1999 and 2000, respectively.

Obligation (including the interest portion thereon) under financial leases at 31st March, 1999 and 2000, were as follows:

|                     | Millions of yen | Thousands of<br>U.S. dollars |
|---------------------|-----------------|------------------------------|
| 31st March          | 19992000        | 2000                         |
| Due within one year | ¥180            | ¥209\$1,972                  |
| Due after one year  | 262             | 2742,585                     |
| Total               | ¥442            | ¥483\$4,557                  |

9. Segment Information

The Companies’ operating results consisted of two business segments. Information by business segment for the years ended 31st March, 1999 and 2000, were summarized as follows:

|  | Millions of yen | Thousands of<br>U.S. dollars |
|--|-----------------|------------------------------|
| 31st March   | 19992000        | 2000                         |
| (a) Sales, operating expenses and operating Income |                 |                              |
| Construction business:                             |                 |                              |
| Sales to outside customers                         | ¥203,967        | ¥213,870\$2,017,642          |
| Operating expenses                                 | 191,708         | 200,3151,889,764             |
| Operating income                                   | ¥ 12,259        | ¥ 13,555\$ 127,878           |

|                            |          |                    |
|----------------------------|----------|--------------------|
| Other business:            |          |                    |
| Sales to outside customers | ¥ 16,555 | ¥ 17,880\$ 168,679 |
| Operating expenses         | 14,553   | 15,876149,774      |
| Operating income           | ¥ 2,002  | ¥ 2,004\$ 18,905   |

|                            |          |                     |
|----------------------------|----------|---------------------|
| Total:                     |          |                     |
| Sales to outside customers | ¥220,522 | ¥231,750\$2,186,321 |
| Operating expenses         | 206,261  | 216,1912,039,538    |
| Operating income           | ¥ 14,261 | ¥ 15,559\$ 146,783  |

|   |          |                     |
|---|----------|---------------------|
| (b) Assets, depreciation and capital expenditures |          |                     |
| Construction business:                            |          |                     |
| Assets  | ¥159,647 | ¥175,299\$1,653,764 |
| Depreciation                                      | 1,508    | 1,57614,868         |
| Capital expenditures                              | 5,069    | 7,18867,811         |
| Other business:                                   |          |                     |
| Assets  | 12,022   | 13,662128,887       |
| Depreciation                                      | 75       | 88830               |
| Capital expenditures                              | 391      | 5885,547            |

|                      |          |                     |
|----------------------|----------|---------------------|
| Total:               |          |                     |
| Assets               | ¥171,669 | ¥188,961\$1,782,651 |
| Depreciation         | 1,583    | 1,66415,698         |
| Capital expenditures | 5,460    | 7,77673,358         |

10. Shareholders’ Equity

The Commercial Code of Japan (the “Commercial Code”) provides that an amount of not less than 10 per cent. of the amount of cash dividends and bonuses to directors paid be appropriated as legal reserve until such reserve equals 25 per cent. of common stock. This reserve is not available for dividends but may, subject to shareholders’ approval, be used to reduce deficits or may be capitalized subject to a resolution of the Board of Directors. The reserve of the Company included in “retained earnings” as at 31st March, 2000, was ¥1,834 million (US\$17,302 thousand).

Under the Commercial Code, an amount equivalent to at least one-half of proceeds from issues of shares shall be accounted for as an addition to the common stock account at a minimum of ¥50 per share. The remaining portion of the proceeds is accounted for as an addition to “additional paid-in capital.”

11. Other Income and Expenses

“Other, net” in “Other Income (Expenses)” consisted of the following:

|  | Millions of yen | Thousands of<br>U.S. dollars |
|--|-----------------|------------------------------|
| 31st March   | 19992000        | 2000                         |
| (Provision for)/Reversal from possible<br>losses arising from overseas investments | ¥(1,592)        | ¥ 150\$ 1,415                |
| Reversal of accrued severance indemnities  | —               | 4,31240,679                  |
| Amortization of the unrecognized<br>prior service cost                             | —               | (7,100)(66,981)              |
| Amortization of discounts on note premium  | (298)           | — —                          |
| Write-down of investments and other assets   | (16)            | (311)(2,934)                 |
| Other  | 183             | (13)(122)                    |
|  | ¥(1,723)        | ¥(2,962)\$ (27,943)          |

12. Subsequent Events

(a) Appropriations of retained earnings  
On 29th June, 2000, the shareholders of the Company approved the following appropriations of retained earnings:

|                           | Millions of yen | Thousands of<br>U.S. dollars |
|---------------------------|-----------------|------------------------------|
| Cash dividends            | ¥684            | \$6,453                      |
| Transfer to legal reserve | 80              | 755                          |
| Bonuses to directors      | 58              | 547                          |

(b) Contribution of investment securities to trust fund for employees’ pension plan  
On 27th April, 2000, the Board of Directors of the Company approved the contribution of investment securities (listed stocks) to a trust fund for the employees’ pension plan of the Company up to 30th September, 2000.

This contribution is to reduce a liability relating to the pension plan at 1st April, 2000, approximately amounting to ¥8,700 million (US\$82,075 thousand), which shall be recognized under the GAAP of Japan with effect from the financial year beginning on and from 1st April, 2000.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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*O.Yu. Kiyodo Office*

CERTIFIED PUBLIC ACCOUNTANTS  
公認会計士桜友共同事務所

8TH FLOOR NO.10 MORI BUILDING  
1-18-1 TORANOMON MINATO-KU  
TOKYO 105-0001 JAPAN

To the Board of Directors,  
Nippon COMSYS Corporation

We have examined the consolidated balance sheets of Nippon COMSYS Corporation and its consolidated subsidiaries as of 31st March, 1999 and 2000, and the related consolidated statements of income and retained earnings for each of the two years ended 31st March, 2000 and the related consolidated statements of cash flows for the year ended 31st March, 2000, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly, the consolidated financial position of Nippon COMSYS Corporation and its consolidated subsidiaries as of 31st March, 1999 and 2000, and the consolidated results of their operations for each of the two years ended 31st March, 2000 and their cash flows for the year ended 31st March, 2000, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis except as follows:

As discussed in "Note 3. Accounting Change", the Company changed its basis of amortization of unrealized prior service cost from cash basis (the amount to be contributed by installment payments had been amortized in each year) to accrual basis (amortized as incurred), with effect from the year ended 31st March, 2000. This change was appropriately made for fair presentation of periodic pension cost. The cumulative effect on prior years of this change decreased "income before income taxes and other adjustments to net income" by ¥7,100 million for the year ended 31st March, 2000. Due to this change, the remaining balance of "accrued severance indemnities" of the Company was reversed in conformity with accounting principles and practices generally accepted in Japan, and "income before income taxes and other adjustments to net income" was increased by ¥4,312 million. Therefore, as a result of this accounting change, "income before income taxes and other adjustments to net income" was decreased by ¥2,788 million for the year ended 31st March, 2000.

Interperiod allocation of income taxes was adopted with effect from the year ended 31st March, 2000, in conformity with revision of accounting principles and practices generally accepted in Japan. The effect of this change was to increase "net income" for the year ended 31st March, 2000 by ¥1,063 million in the aggregate and "retained earnings" as at 31st March, 2000 by ¥4,271 million.

The U.S. dollar amounts, presented solely for the convenience of the readers, have been translated on the basis stated in Note 1.

*Masatoshi Yoshino*

Masatoshi Yoshino

29th June, 2000

*Eiji Miyashita*

Eiji Miyashita

Certified Public Accountants of Japan

*Hideo Niwa*

Hideo Niwa

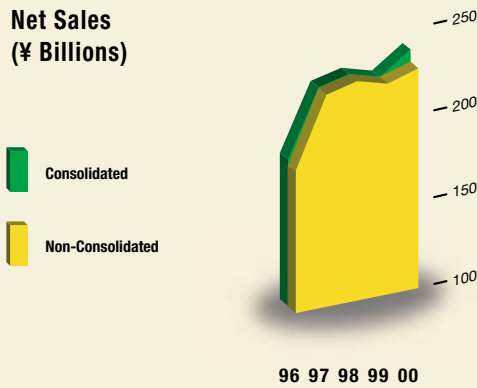
SUPPLEMENTAL NON-CONSOLIDATED FINANCIAL INFORMATION

Nippon COMSYS Corporation  
Years ended 31st March, 1999 and 2000

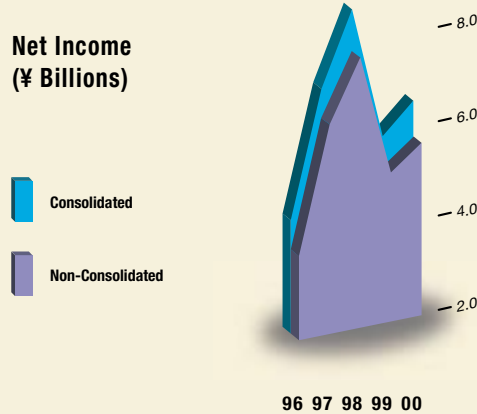
|                      | Millions of yen |          | Thousands of U.S. dollars | Change (%) |
|----------------------|-----------------|----------|---------------------------|------------|
|                      | 1999            | 2000     | 2000                      |            |
| Net sales            | ¥219,764        | ¥226,146 | \$2,133,453               | 2.9%       |
| Operating income     | 13,877          | 13,626   | 128,547                   | -1.8%      |
| Net income           | 5,075           | 5,818    | 54,887                    | 14.6%      |
| Total assets         | 166,002         | 171,802  | 1,620,774                 | 3.5%       |
| Shareholders' equity | 96,635          | 110,400  | 1,041,509                 | 14.2%      |
|                      |                 |          |                           |            |
|                      | Yen             |          | U.S. dollars              |            |
| Per share:           |                 |          |                           |            |
| Net income           | ¥ 38.78         | ¥ 42.78  | \$ 0.40                   | 10.3%      |
| Cash dividends       | 10.00           | 10.00    | 0.09                      | 0.0%       |

Note: Yen figures have been translated into U.S. dollars at the rate of ¥106.00=US\$1, rounded, for convenience only, from an approximate exchange rate of ¥106.15 to the dollar prevailing on 31st March, 2000.

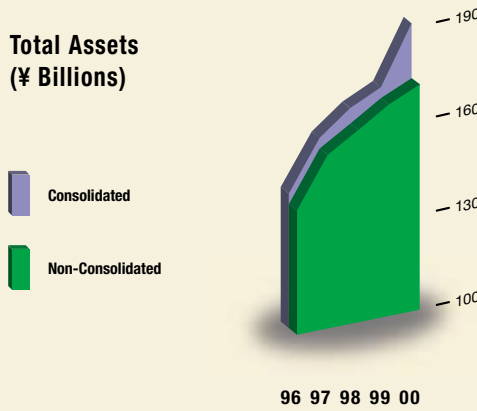
Net Sales  
(¥ Billions)



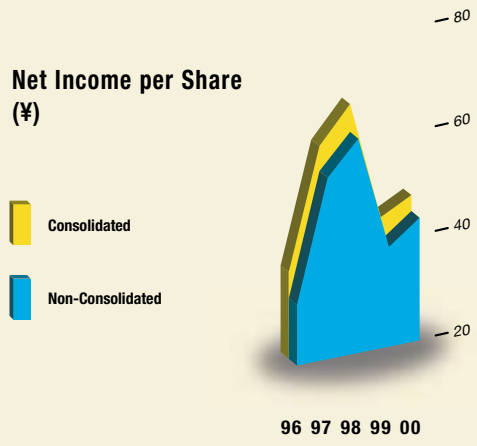
Net Income  
(¥ Billions)



Total Assets  
(¥ Billions)

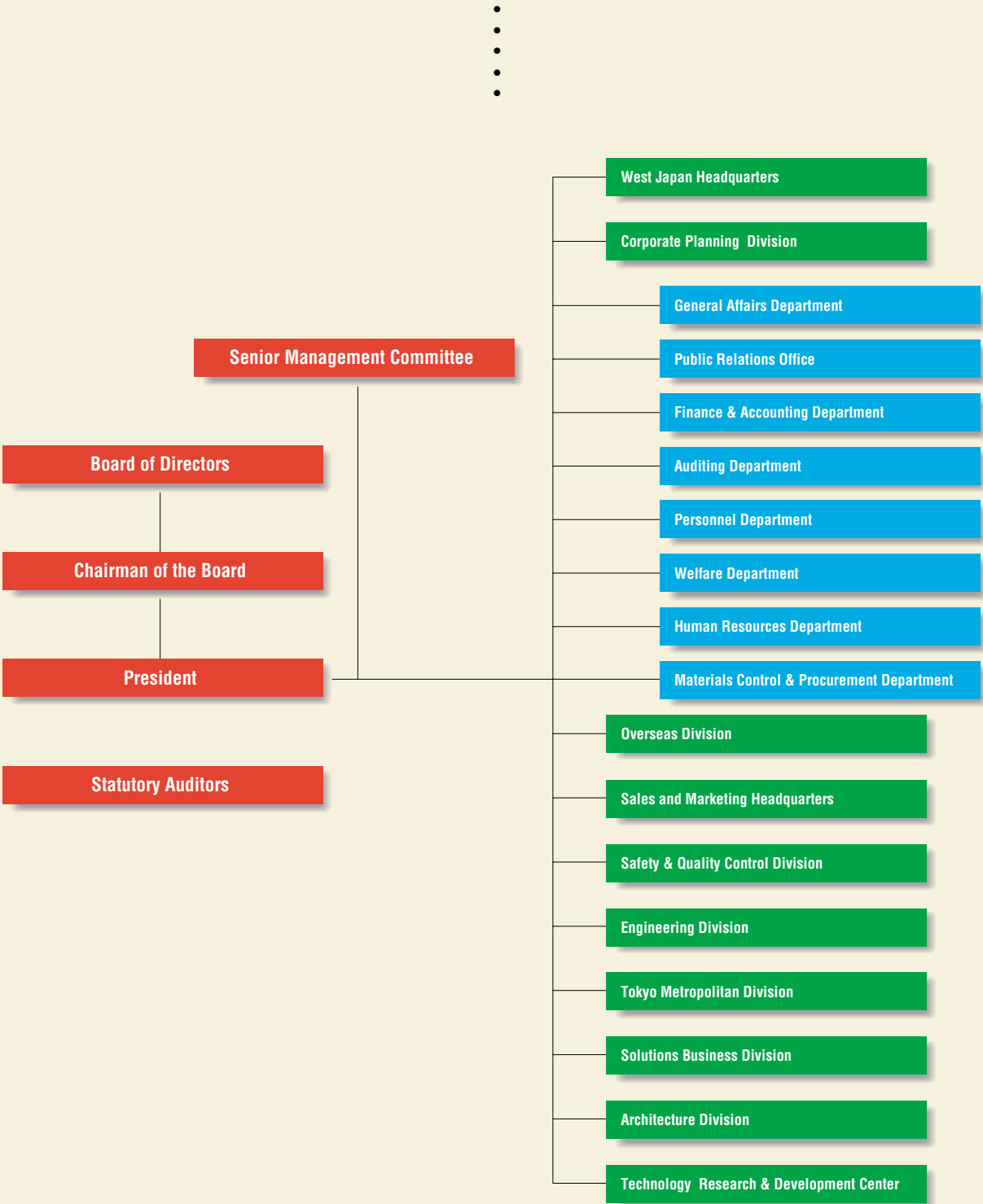


Net Income per Share  
(¥)





ORGANIZATION CHART  
As of July 1, 2000



CORPORATE INFORMATION  
As of March 31, 2000

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•  
•

**Head Office:**  
23-14, Takanawa 3-chome, Minato-ku  
Tokyo 108-8610, Japan  
Tel: 81 (3) 3448-7031

**Overseas Division:**  
Tel: 81 (3) 3448-7181  
Fax: 81 (3) 3440-5941

**Branches:**  
Hokkaido, Tohoku, Akita, Fukushima, Kantominami, Kantonaka, Tochigi, Shinetsu, Niigata, Tokai, Hokuriku, Kansai, Chugoku, Shikoku, Takamatsu, Kyushu, Okinawa

**Overseas Liaison Office:**  
Bangkok, Thailand Tel: 66 (2) 319-5551

**Establishment:**  
1951

**Common Stock:**  
Authorized: 249,665,000 shares  
Issued: 137,166,252 shares

**Number of Shareholders:**  
6,445

**Paid in Capital:**  
¥31,141 million

**Stock listings:**  
Common stock—Tokyo, Osaka

**Transfer Agent:**  
The Mitsubishi Trust and Banking Corporation  
Securities Department  
4-5, Marunouchi 1-chome  
Chiyoda-ku, Tokyo 100-0005

**Number of Employees:**

|                           |       |
|---------------------------|-------|
| Parent company            | 3,728 |
| Consolidated subsidiaries | 1,022 |
| Total                     | 4,750 |

**Main Clients:**  
Nippon Telegraph and Telephone Corporation (NTT)  
Nippon Telegraph and Telephone East Corporation (NTT EAST)  
Nippon Telegraph and Telephone West Corporation (NTT WEST)  
NTT Communications Corporation (NTT COMMUNICATIONS)  
NTT Data Corporation (NTT DATA)  
NTT DoCoMo, Inc. (NTT DoCoMo)  
KDD Corporation  
DDI Corporation  
Tokyo Telecommunication Network Co., Inc.  
Sharp Corporation  
Japan Highway Public Corporation  
RECRUIT Co., Ltd.  
The Tokyo Electric Power Co., Inc.  
Fuji Xerox Co., Ltd.  
The Furukawa Electric Co., Ltd.  
Sumitomo Electric Industries, Ltd.  
Fujikura Ltd.  
Hitachi Cable, Ltd.  
NEC Corporation  
Fujitsu Limited  
Mitsubishi Corporation  
Mitsui & Co., Ltd.  
Sumitomo Corporation  
Marubeni Corporation  
Lucent Technologies  
Telephone Organization of Thailand (Thailand)  
Ministry of Communications (Kuwait)  
TelecomAsia Corporation Public Co., Ltd. (Thailand)  
Thai Telephone & Telecommunication Public Co., Ltd. (Thailand)  
Philippine Long Distance Telephone Co. (Philippines)  
Bayan Telecommunications, Inc. (Philippines)  
Globe Telecom Inc. (Philippines)  
Smart Communications, Inc. (Philippines)

**Bank References:**  
The Bank of Tokyo-Mitsubishi, Ltd.  
The Mitsubishi Trust and Banking Corporation  
The Dai-ichi Kangyo Bank, Ltd.  
The Fuji Bank, Limited  
The Sanwa Bank, Limited  
The Sumitomo Bank, Limited  
The Industrial Bank of Japan, Limited

## CORPORATE DIRECTORY

Nippon COMSYS Corporation  
As of March 31, 2000

| <i>Company Name</i>                           | <i>Location</i>        | <i>Principal Business</i>  | <i>Paid-in Capital</i> | <i>Percentage Owned (%)</i> |
|---|------------------------|--|------------------------|-----------------------------|
| <b>Consolidated Subsidiaries</b>              |                        |  |                        |                             |
| Okoshi Denken Co., Ltd.                       | Tokyo, Japan           | Telecommunications engineering and electrical engineering                  | ¥ 60 million           | 96.4%                       |
| Tokyo Denwa Shisetsu Co., Ltd.                | Tokyo, Japan           | Design of telecommunications facilities and civil engineering projects     | ¥ 40 million           | 85.3                        |
| Tsuken Kiko Co., Ltd.                         | Tokyo, Japan           | Construction of telecommunications facilities                              | ¥ 30 million           | 100.0                       |
| COMSYS Techno Co., Ltd.                       | Tokyo, Japan           | Planning and consultation with regard to information-processing technology | ¥ 50 million           | 100.0                       |
| COMSYS Tec Co., Ltd.                          | Tokyo, Japan           | Construction of telecommunications facilities                              | ¥ 90 million           | 79.8                        |
| Tokyo Tsuken Co., Ltd.                        | Tokyo, Japan           | Construction of telecommunications facilities                              | ¥ 54 million           | 39.2                        |
| Nitto Tsuken Co., Ltd.                        | Tokyo, Japan           | Construction of telecommunications facilities                              | ¥ 60 million           | 33.3                        |
| Taiei Seisakusho Co., Ltd.                    | Kanagawa, Japan        | Design, manufacturing, and sales of telecommunications equipment           | ¥ 60 million           | 49.7                        |
| <b>Major Non-Consolidated Subsidiaries</b>    |                        |  |                        |                             |
| COMSYS Tusan Co., Ltd.                        | Tokyo, Japan           | Sales of construction materials  | ¥ 60 million           | 94.0                        |
| Nippo Kensetsu Kogyo Co., Ltd.                | Tokyo, Japan           | Civil engineering  | ¥ 50 million           | 54.5                        |
| COMSYS Business Service Co., Ltd.             | Tokyo, Japan           | Construction of telecommunications facilities                              | ¥304 million           | 100.0                       |
| <b>Overseas Affiliates</b>                    |                        |  |                        |                             |
| Thai Telecommunications Engineering Co., Ltd. | Bangkok, Thailand      | Technological consulting and engineering services                          | B15,000 thousand       | 48.0                        |
| Thai COMSYS & Jackson Co., Ltd.               | Bangkok, Thailand      | Technological consulting and engineering services                          | B 2,000 thousand       | 49.0                        |
| COMSYS Philippines, Inc.                      | Manila, Philippines    | Technological consulting and engineering services                          | P12,500 thousand       | 30.0                        |
| CMC Engineering SDN. BHD.                     | Kuala Lumpur, Malaysia | Technological consulting and engineering services                          | RM1,053 thousand       | 30.0                        |





Nippon COMSYS Corporation

23-14, Takanawa 3-chome, Minato-ku, Tokyo 108-8610, Japan

Telephone: 81(3) 3448-7031