



Nippon COMSYS Corporation

# 1997

*COMSYS*

*— For Excellence in*

*Telecommunications*



# Annual Report

Fiscal Year Ended March 31, 1997

PROFILE

Nippon COMSYS Corporation was founded in 1951 to assume the duties of the Construction Division of Nippon Telegraph and Telephone Corporation (NTT). Since its establishment, COMSYS has been a leader in the telecommunications engineering field. A specialist in communications and computer technology, COMSYS is striving to grow its business to meet the 21st century, and to make a contribution to the development of the information-intensive society. We are fostering a corporate culture characterized by fresh thinking and open communication, in which each employee can take pride, each employee can thrive, and each employee can give full expression to his talents and capabilities. We are a creative organization, working toward a better future.

CONTENTS

Financial Highlights	1
Letter from the President	2
Toward the 21st Century-Our Vision of the Future	4
Corporate Citizenship	6
Review of Operations	7
NTT Construction	8
Domestic Construction and Engineering	10
International Operations	12
Information Systems	16
Board of Directors and Auditors	18
Financial Section	19
Organization Chart	34
Corporate Information	35
Corporate Directory	36

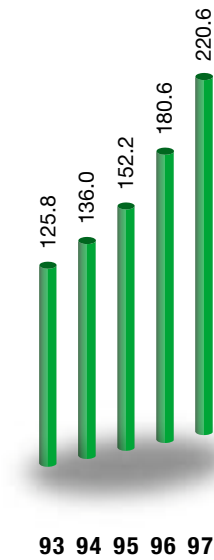
FINANCIAL HIGHLIGHTS

Nippon COMSYS Corporation  
Years ended March 31, 1996 and 1997

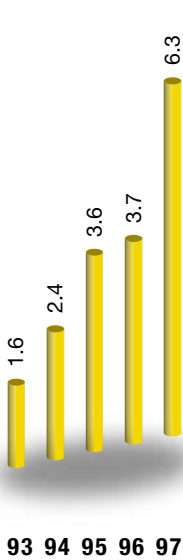
	Millions of yen		Thousands of U.S. dollars	Change
	1996	1997	1997	(%)
Contract backlog at beginning of the year	¥ 47,576	¥ 53,127	\$ 428,443	11.7%
New orders received during the year	186,180	225,147	1,815,702	20.9%
Net sales	180,629	220,590	1,778,951	22.1%
Contract backlog at end of year	53,127	57,684	465,194	8.6%
Net income	¥ 3,742	¥ 6,267	\$ 50,540	67.5%
Total assets	138,610	154,246	1,243,919	11.3%
Shareholders' equity	59,277	65,096	524,968	9.8%
	Yen		U.S. dollars	
Per share:				
Net income	¥32.91	¥54.27	\$0.44	64.9%
Cash dividends	9.75	11.75	0.09	20.5%

Note: Yen figures have been converted from U.S. dollars at the rate of ¥124.00=US\$1, rounded down, for convenience only, from an approximate exchange rate of ¥124.10 to the dollar on March 31, 1997.

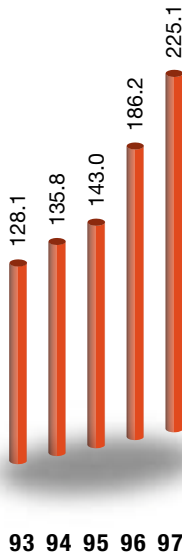
Net Sales  
(¥ Billions)



Net Income  
(¥ Billions)



New Orders Received  
(¥ Billions)



## LETTER FROM THE PRESIDENT

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### Environment

**I**n fiscal 1996 (ended March 31, 1997), the weakening of the yen in international exchange and extremely low interest rates were expected to produce a recovery in private-sector demand, chiefly capital investment and consumer spending. However, troubles in the financial sector and the instability of the securities markets prevented a full-scale recovery, and unfavorable economic conditions persist.

This notwithstanding, and as the telecommunications industry moved forward with the creation of the multimedia infrastructure for the high order, information-based society of the future, at the end of last year a final decision was reached at last with regard to the splitting of NTT. Telecommunications construction contractors, therefore, can expect an intensification of competition together with increased requirements for better service and diversification of operations. The accelerating growth of demand for Internet services and mobile communications has brought major changes to conditions in this market.

Responding promptly to these changes in the business environment, Nippon COMSYS Corporation is engaged in a companywide effort to strengthen technological expertise, marketing capabilities, and cost competitiveness. We are striving to increase orders from NTT, our biggest customer, and its subsidiaries and affiliates. We are pursuing a drive to win contracts for multimedia-related projects both at home in Japan and overseas, the latter primarily in South-east Asia.

### Performance

**A**s a result of the above, total orders received rose 20.9 percent to ¥225.1 billion (US\$1,815 million), and total revenues increased 22.1 percent to ¥220.5 billion (US\$1,778 million). This was the first time the Company has broken through the ¥200 billion ceiling. The substantial growth in these figures, on the heels of double-digit growth in the previous term, can only be seen as verification that the Company's policies were well chosen. This is particularly true in view of the adverse business and economic conditions with which the Company is faced.

The Company continued its thoroughgoing reevaluation of operations in all areas in this term as well, most particularly the performance of construction supervisors. This program, begun last term, allowed us to improve operational efficiency, strengthen our subcontracting system, reduce indirect expenses and general administrative expenses, and apply funds with greater efficiency. The effects of these efforts were apparent in companywide performance, as operating income soared 59.0 percent to ¥13.5 billion (US\$109 million), and net income jumped 67.4 percent to ¥6.2 billion (US\$50 million).

### Outlook and Important Issues

**A**s one of Japan's largest general telecommunications engineering construction contractors, COMSYS has established as the pillar of its operations contracts with NTT and its group of companies. The better to respond to today's rapidly changing market trends, COMSYS is bringing its long years of experience in project execution to bear on strengthening its technological capabilities. At the same time, the Company offers a full range of engineering and systems services, covering everything from project planning and execution to maintenance. Everyone at COMSYS is acutely conscious of the need to expand the scope of our operations, and to reinforce our business base.

At present, telecommunications-related industries are enjoying rapid growth as a result of public and private sector efforts to develop a high order, information-based society and to internationalize data communications. However, competition among telecommunications firms is intensifying, and international user fees are trending downward. It is expected, therefore, that the need for reductions in operating costs in this industry will become more pressing.

Looking forward to market conditions in the coming term, we look for extremely large-scale growth in the non-NTT market. COMSYS will renew its efforts to enter new fields and to diversify its customer base. This will involve both domestic projects in our strategic "CC Box" (multi-use underground cable conduit) facilities, LANs, and cable television operations, and the energetic pursuit of overseas projects. The most important issue facing COMSYS is the expansion of orders from sources other than the NTT group.

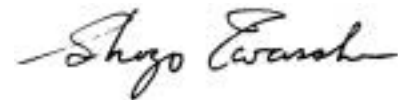
In the coming term, COMSYS will further strengthen its operations through enhancing technological and marketing capabilities, and by reducing costs. This will allow us to realize needed improvement in the Company's performance.

### Dividends

**D**ividend policies are among the most important issues with which this Company must deal. We must strengthen our financial structure against the need for future expansion of operations. To improve our return on equity, we must consider our ability to pay dividends in light of the Company's performance in any given term. Our basic policy is to give heavy weight to shareholder concerns in setting dividends.

In the current term, the Company was faced with the responsibility to meet its obligations with regard to dividends to holders of our fourth and fifth issues of notes with warrants. Also taking performance in this term into consideration, we declared an ordinary dividend of ¥6 per share, a special dividend of ¥1 per share to commemorate our 45th anniversary, and another special dividend of ¥4.75 per share, for a total of ¥11.75 per share for the term.

As we strive to maintain and increase dividend levels through improved performance, Nippon COMSYS Corporation requests the continued support of the company's friends, clients, and shareholders.



**Shozo Iwasaki**  
President



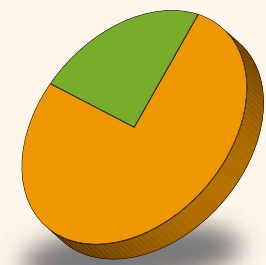


# Toward the 21st Century - Our Vision of the Future

● 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. For the telecommunications industry, this will mandate development of the ability to transmit data in any form, at any time, to any destination. 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.

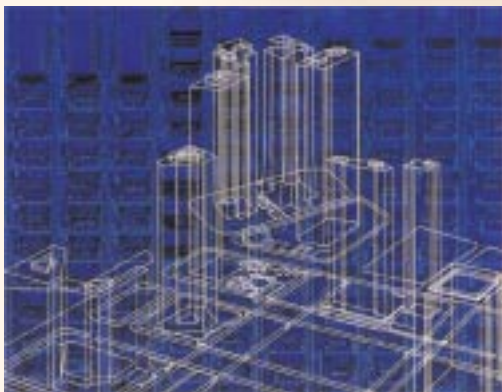
● As high order, information-based societies emerge, telecommunications will play an increasingly important part in the economic community. It is predicted that economic expansion will accelerate as a result of the introduction of new and more diverse communications services. To clarify its response to these trends, COMSYS has drafted a new medium-term management plan, which it calls the COMSYS '90s II plan. Covering the latter half of the 1990s, COMSYS '90s II is based on the concept of continual reevaluation of operations in light of emerging market developments, with particular emphasis on the changes resulting from the advent of the multimedia era. At the same time, though, this plan does not depart from COMSYS' basic policy of encouraging individual initiative in every employee.

● The principal objectives outlined under this plan are, first, to achieve corporate growth through the expansion of diversification activities, with a goal of a 50 percent expansion of revenues generated by these operations by



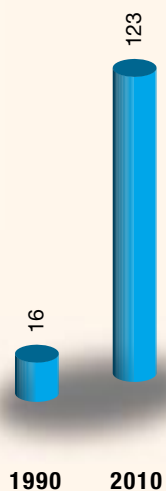
**77%** NTT  
23% Non-NTT

Sources of Construction  
Contracts



1999. Next, COMSYS will improve profitability through enhanced productivity and emphasis on high-added value products and services, over the five-year period covered by the plan seeking to raise gross profit per employee by more than 30 percent. The Company will seek to increase the value of orders received from the NTT Group by 40 percent by upgrading technological expertise, thereby winning contracts for all phases of project execution, including design. Diversification operations, including the domestic construction and engineering sector, information systems sector, and overseas construction sector, will grow to account for 50 percent of total net sales. To strengthen the Company's research and development structure, R&D will be consolidated at the newly constructed Technology Center. The Center's mission is to remain abreast of technological advance and to enhance project-execution efficiency through the development of original technology. Finally, the Company will strive to improve the work environment on project sites, to combat construction work's "3K" image — *kiken* (dangerous), *kitanai* (dirty), and *kitsui* (difficult).

● COMSYS projects that Japan's multimedia market will grow to ¥123 trillion (US\$1,382 billion), including a video and computer software market of ¥29 trillion (US\$326 billion), a network service market of ¥23 trillion (US\$258 billion), and a communications and computer terminal market of ¥34 trillion (US\$382 billion). As a result, demand for optical-fiber related construction projects is forecast at ¥95 trillion (US\$1,067 billion). COMSYS is determined not just to play a role in the creation of these new and exciting communications capabilities, but to become the leading firm in the field. In this way, COMSYS will make a contribution to a higher quality of life, and to the enhanced business possibilities represented by these new telecommunications capabilities.



**¥123** trillion (2010)  
¥16 trillion (1990)

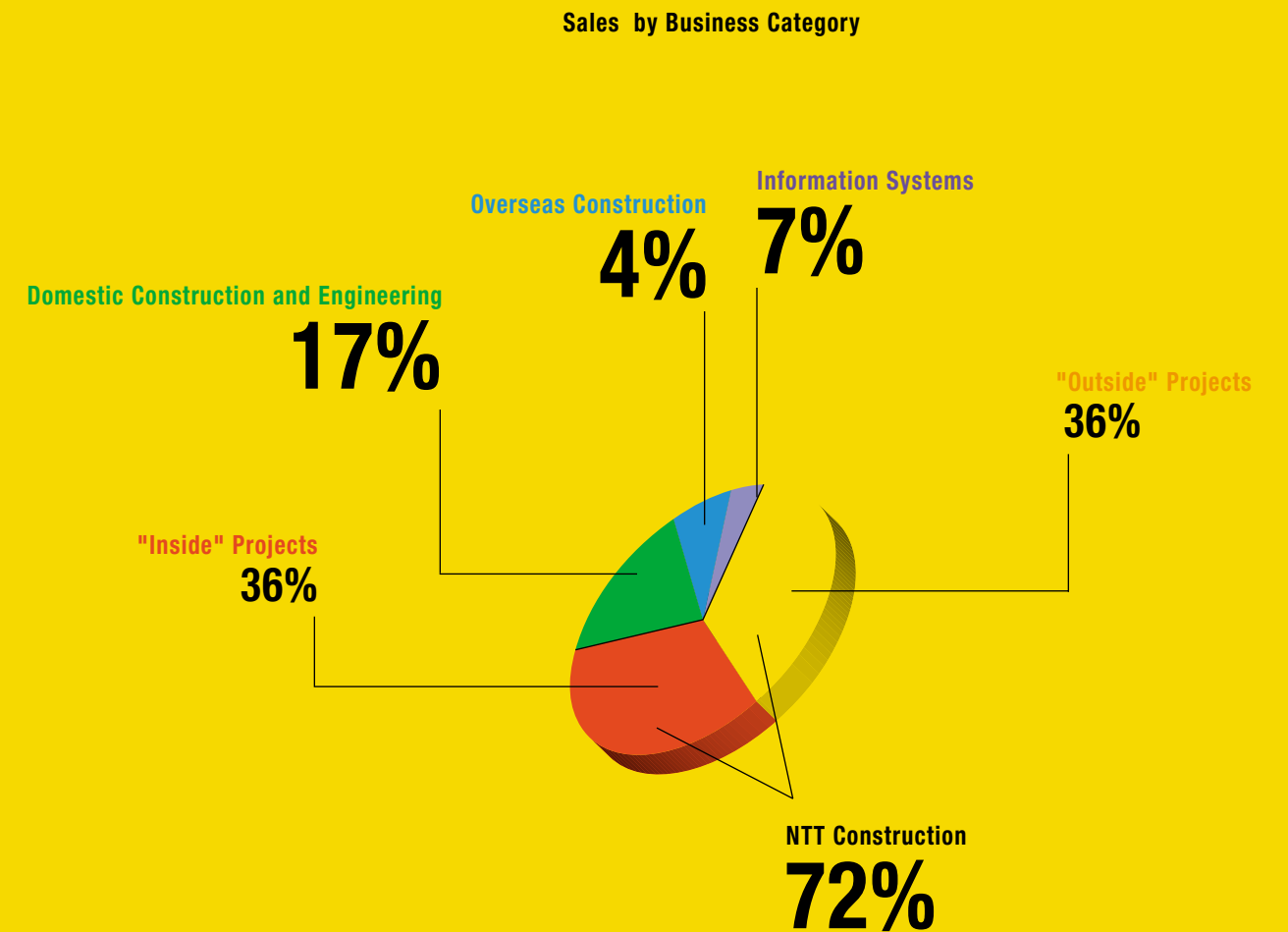
The Growing  
Multimedia Market

## 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.
- In December 1994, COMSYS provided support to the Japan Volunteer Center (JVC) for a holiday presentation of Handel's Messiah at Tokyo's Showa Women's College. JVC is one of Japan's premier volunteer organizations, with members from eight countries in Asia, Africa, and Central and South America.



## REVIEW OF OPERATIONS





# NTT CONSTRUCTION

● The long-term trend toward more intense competition in the fields of long-distance and mobile telephone services continues to bring fiercer competition for our most important customers, NTT and the NTT Group. This is driving increases in operational efficiency and competitiveness, as the industry creates and expands a telecommunications infrastructure to support multimedia and digital communications, and an optical-fiber access network.

● The NTT Construction sector of COMSYS, in response to today's rapid technological advance, is striving to gain and enhance expertise in cutting-edge technology. At present, the Company is handling projects for NTT involving cellular telephones and other mobile communications, civil engineering, cable laying, switchboards, and electric power generation.

● In response to the changes in NTT's subcontracting policies, COMSYS is adjusting its own structure. COMSYS has ties with approximately 200 subcontractors, organized in a "Safety Cooperation Group." Each of these subcontractors has an association with COMSYS spanning many years. With the goal of reducing subcontracting expenses, which make up approximately sixty percent of total costs, and eliminating duplication of operations, COMSYS has reorganized this subcontracting group during recent years. COMSYS, as a comprehensive telecommunications contractor, is fully capable of meeting NTT's requirements for increased efficiency, and is seeking to expand orders received through a vigorous marketing program.

● For instance, COMSYS expanded its capabilities in the cellular telephone field through the development, jointly with instrument maker Unico Systems, of a system for using a navigator's sun shot for orienting cellular telephone antennas. In addition to preventing errors in measurement, this new technology makes it possible to complete cellular telephone station construction in twenty to forty percent of the time previously required. The operator simply enters latitude, longitude, and the time, then rotates the light sensor toward the sun. An onboard computer then calculates true north. The entire process, from deployment of the equipment through identification of true north and orientation of the antenna, takes only 45 minutes.

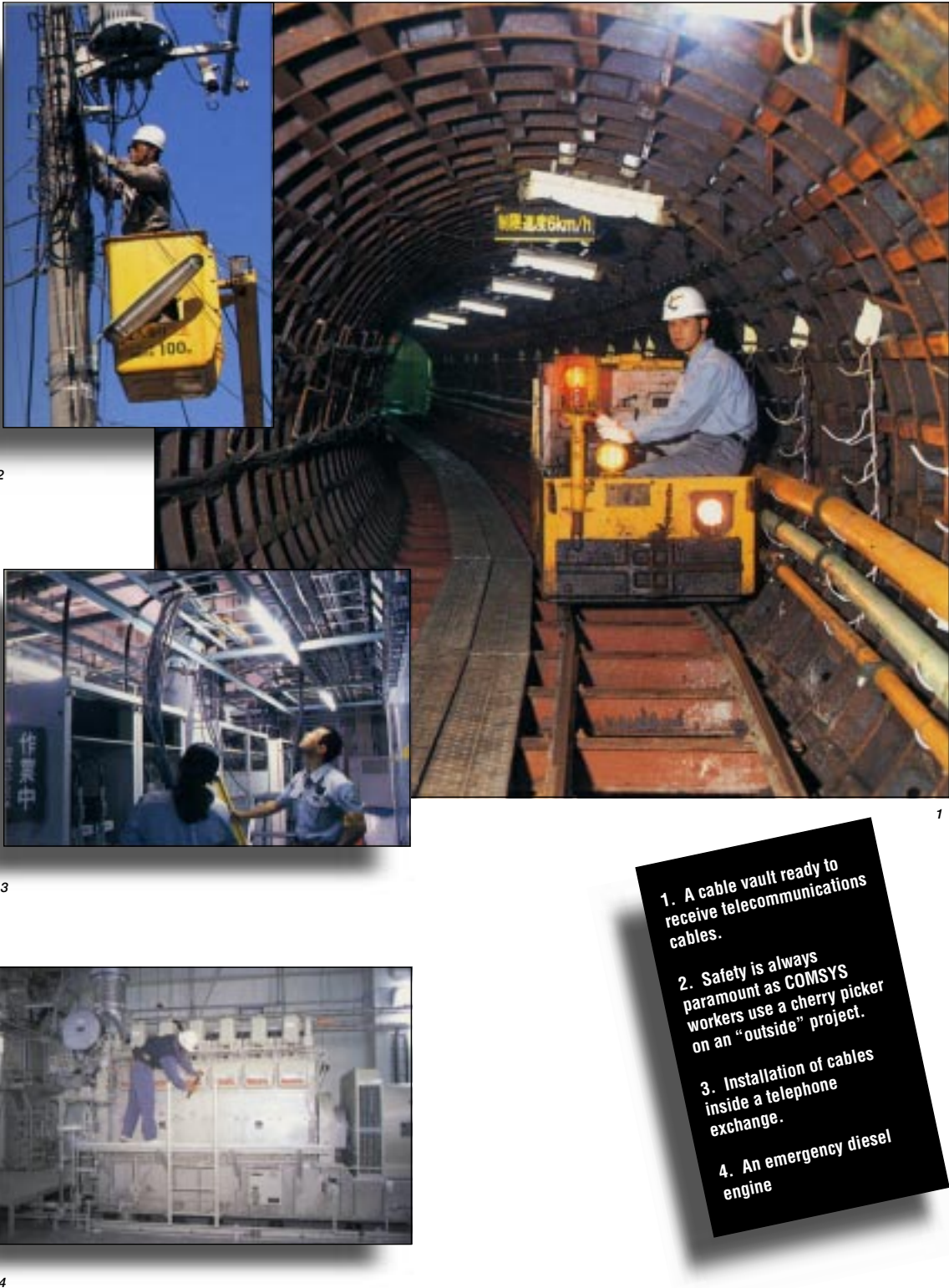
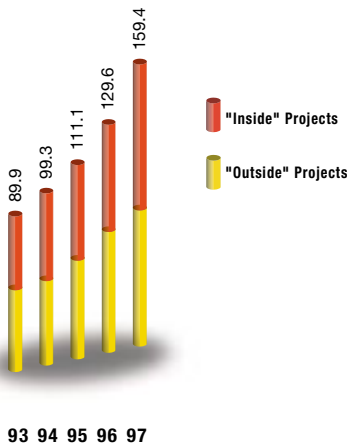
● As a result of these efforts, orders received in this sector rose 19.8 percent to ¥157.1 billion (US\$1,267 million), and construction revenues rose 23.0 percent to ¥159.4 billion (US\$1,285 million). Given the adverse business environment, this growth must be seen as a success.

● Turning to the coming term, competition to achieve enhanced efficiency among telecommunications firms, including NTT and the NCCs (new communications carriers), will worsen further, as the need for cost reductions continues to pinch. In response, COMSYS will be striving to improve operational efficiency, strengthen its subcontracting system, and develop versatile technicians who are competent across a broad spectrum of technologies.



**72%**  
of Total Revenue

Sales of NTT Construction  
(¥ Billions)



1. A cable vault ready to receive telecommunications cables.
2. Safety is always paramount as COMSYS workers use a cherry picker on an "outside" project.
3. Installation of cables inside a telephone exchange.
4. An emergency diesel engine



## DOMESTIC CONSTRUCTION AND ENGINEERING

● This sector handles projects for all domestic non-NTT clients, including the Defense Agency, the National Police Agency, and the NCCs. Operations center on telecommunications engineering projects, and include electrical facilities, the construction of buildings, "CC Box" (multi-use underground cable conduit) facilities, and a wide spectrum of other construction and engineering activities.

● The Domestic Construction and Engineering sector is benefiting from the rapidly advancing development of the high order, information-based society, including the construction of an infrastructure to support multimedia communications and international computerization. The construction of a second optical fiber cable route for NCCs offering long-distance services, the connection of regional NCCs to NTT's telecommunications network, and rapid growth of demand for mobile communications have brought vigorous facilities construction, producing great changes in the environment surrounding this market.

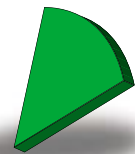
● Last year we designated our CC Box, cable TV, LAN, and similar operations as strategic businesses, strengthening systems and creating operational structures, while conducting a vigorous marketing program. As a result of this response to the growth in the market for multimedia technology, this sector saw substantial growth in orders received and revenues. The CC Box Promotion Office concentrated its marketing efforts on the Ministry of Construction, while the Cable TV Promotion Office targeted primarily broadcasters affiliated with *sogo shosha*. The LAN Promotion Office focused its marketing program on private sector firms. It is forecast that these three

sectors will produce revenues of ¥50 billion by fiscal 1999. COMSYS hopes through these operations to contribute to the development of a multimedia communications network in Japan.

● The Ministry of Construction plans to lay 400,000 kilometers of underground cable runs along national highways and city streets for the purpose of installing optical fiber communications cables, cable TV power circuits, and similar equipment underground. The estimated cost of the project is ¥40 trillion, and there is a strong possibility that CC Boxes are the wave of the future, as construction costs are one-third to one-half those of previous methods.

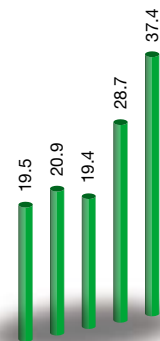
● The Company has a good deal of experience in installing LANs for Universities and Government Agencies, and has developed a good deal of LAN-related software. COMSYS has wide experience in the installation of LAN hardware, as well. Last April the General Systems Division commenced 24-hour LAN support, including on-site maintenance, operation, and monitoring, greatly enhancing the Division's comprehensive customer service system. Now the Division faces the need to develop technology for integrated networks with sound and video capabilities, and to develop the systems integration expertise to design and install such systems.

● COMSYS has completed a number of metropolitan cable-television related projects for TITUS Communications and other firms. The Company has been engaged in cable television projects since the 1960s, and is currently riding the second wave of cable TV popularity. Our leading-edge construction technology has helped us win many contracts for urban cable television projects, and we expect this to become one of the Company's principal growth areas.



**17%**  
of Total Revenue

Sales of Domestic Construction  
and Engineering (¥ Billions)



93 94 95 96 97



2



3



4



1. Telecommunications equipment installation inside the Tokyo City Hall.
2. Installing telecommunications facilities at the Tokyo Rainbow Bridge.
3. Telecommunications equipment installation in the subway.
4. Testing telecommunications facilities.

7

# INTERNATIONAL OPERATIONS

● Since the Company's first overseas project in 1964, a project involving the laying of cables for telecommunications trunk lines in Bangkok, Thailand, COMSYS has pursued a vigorous and well-planned overseas expansion program. The Company has executed numerous projects related to communications cables, civil engineering, switching, electric power, radio, and computerization in over 70 countries throughout Southeast Asia, the Middle East, Africa, and Latin America.

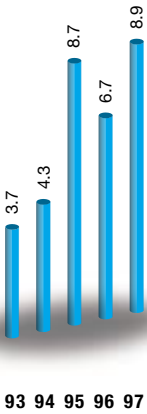
● Providing everything from consulting through planning, project execution, maintenance, and facilities operation, the Company had major projects under way this term in Thailand, the Philippines, Malaysia, and other countries throughout Southeast Asia. In this way, COMSYS is contributing to the development of the region's infrastructure.

● In June 1996 the Company established a joint venture in Malaysia to facilitate full-scale participation in the construction of that country's telecommunications infrastructure. The new company, CMC Engineering SDN. BHD., was established jointly with a Malaysian telecommunications construction firm, and is capitalized at approximately ¥20 million. In 1996 Malaysia launched its "Multimedia Super Corridor," an important feature of which is the construction of a next-generation com-

munications infrastructure. Malaysia is striving to join the ranks of the developed nations by the year 2020, and CMC Engineering has set the goal of reaching ¥2 billion in annual revenues by 1999.

● The progress of running projects in the Philippines and Thailand along with new contracts for work in telecommunications infrastructure construction particularly a contract in connection with Thailand's "800,000 Telephone Line Construction Project," greatly boosted the performance of this sector. Orders received jumped 30.6 percent to ¥11.4 billion (US\$92 million), and construction revenues rose 33.2 percent to ¥8.9 billion (US\$71 million).

● The Company's overseas bases include Thai Telecommunications Engineering Co., Ltd. (established in 1978), Thai COMSYS & Jackson Co., Ltd. (established in 1992), COMSYS Philippines, Incorporated (established in 1994), and in Malaysia, CMC Engineering SDN. BHD. (established in 1996). In addition, COMSYS has fostered a network of highly successful associates in various countries, in cooperation with which it carries out research, design, project execution, and consulting services.



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1. Installing underground cables in Bangkok.
2. Installing aerial CCP cables in a Bangkok suburb.
3. Installing aerial optical fiber cables in Bangkok.
4. Testing aerial CCP cables in Bang Phli, Thailand.

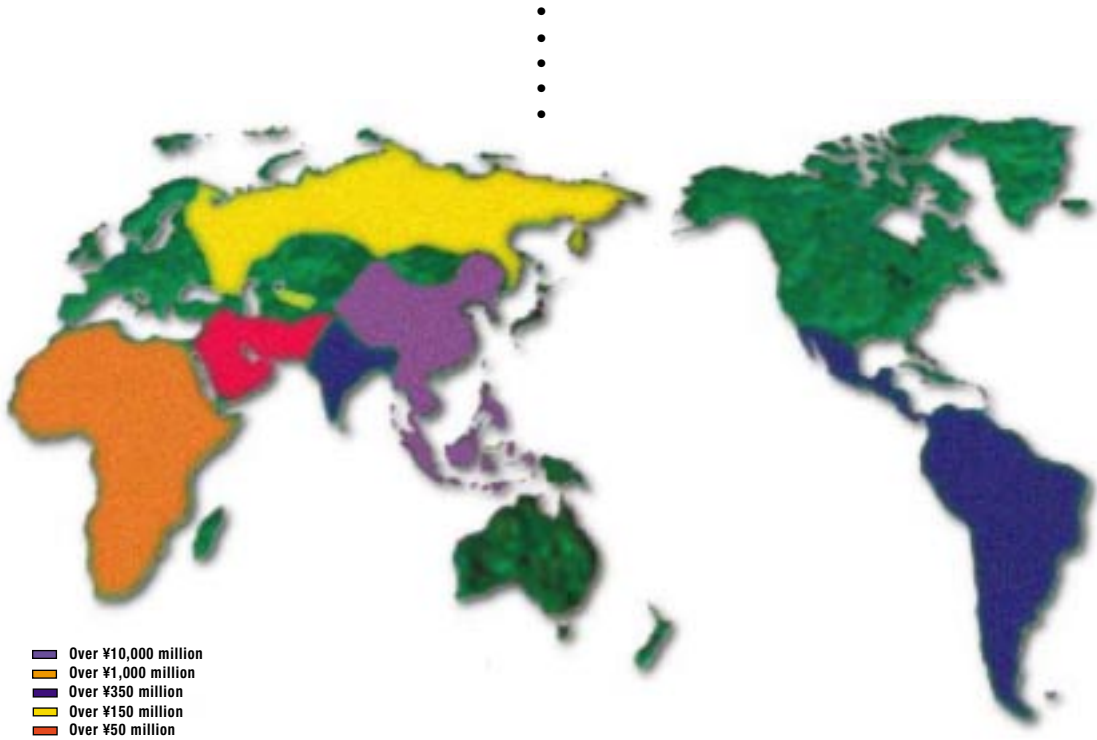


● In the coming year, COMSYS will strive to maintain a stable volume of orders through its local subsidiaries and joint ventures in Thailand, the Philippines, and Malaysia. In our marketing,

we will emphasize our high-tech capabilities and advanced construction methods, striving for further expansion of orders.



CONSTRUCTION REVENUES FOR LAST THREE YEARS



Major overseas Projects Completed

Nigeria	Ibadan new local line project
Iraq	Installation of 58,000-line exchange equipment
Iraq	Installation of telephone lines for 17 local exchanges
Kuwait	Relocation of Telecommunications Services along Fahaheel Expressway
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
Thailand	Metropolitan area local cable network: 24 exchanges
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
El Salvador	Installation of local telephone lines in La Preshita
Zambia	Rehabilitation of telephone cable network in Lusaka
Tanzania	Rehabilitation of telecommunications network in Dar es Salaam

Overseas Projects in Progress (As of June 1997)

Philippines	Installation of trunk lines and local cable network in Manila and the provinces
Thailand	Seventh local cable network for TOT in Bangkok and the provinces
Thailand	The Telephone Expansion Project to Overcome Short-Term Line Shortage / B. E.1996-1998

# INFORMATION SYSTEMS

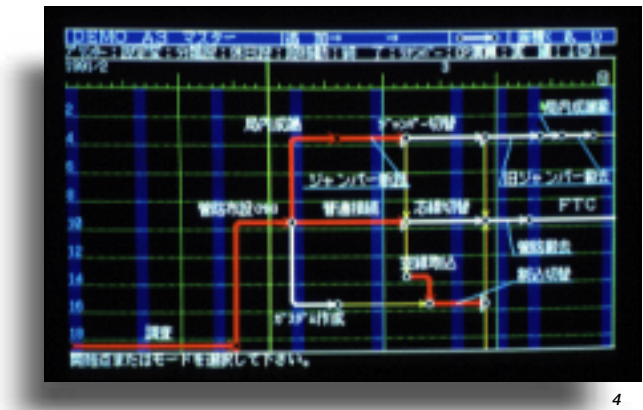
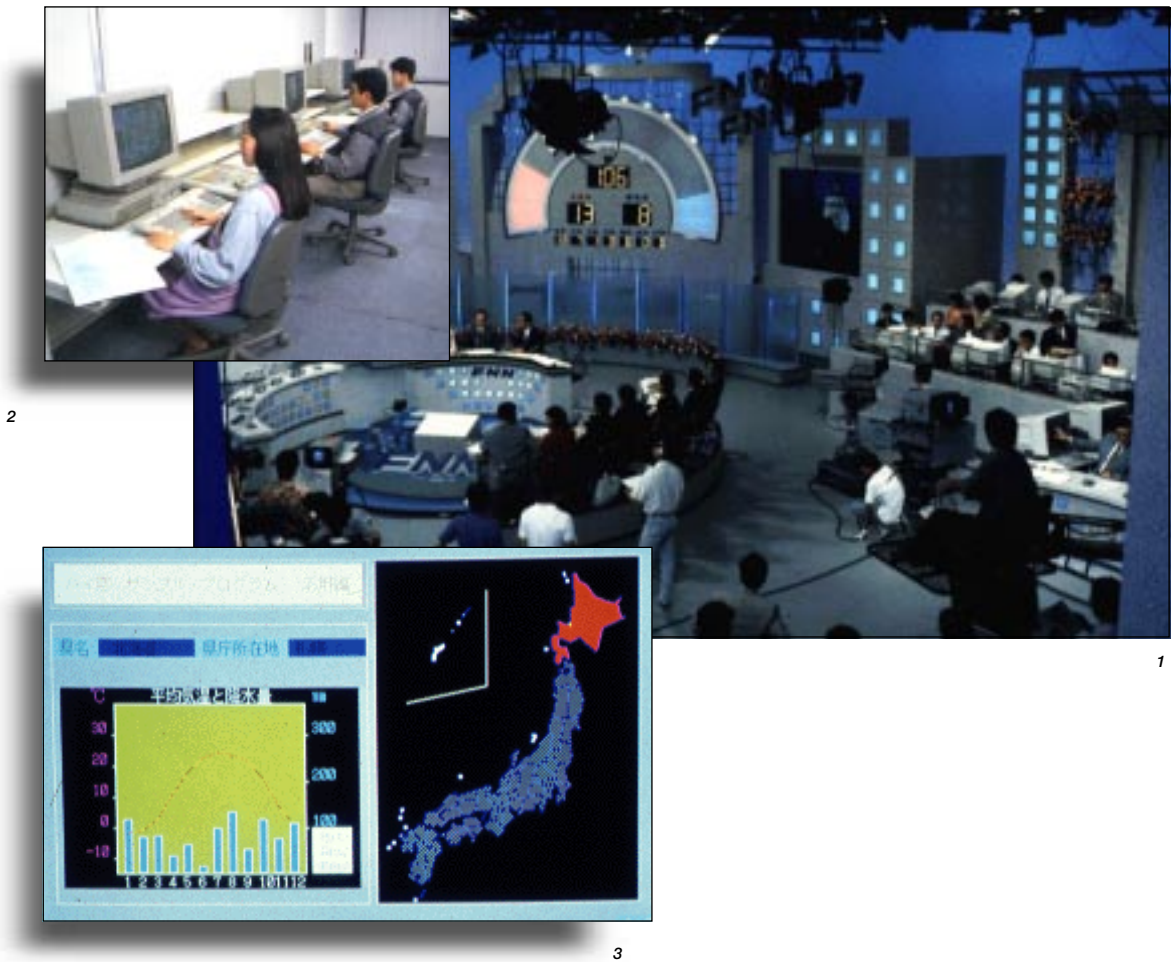
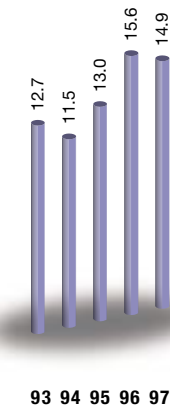
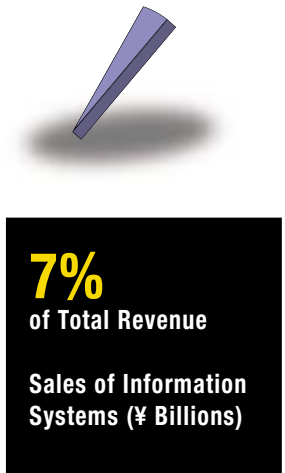
● The information systems sector is engaged in the development of computer software, systems integration, and the sale of office equipment. This sector counts among its clients NTT, NEC, and, in the public sector, national and local government agencies.

● The office equipment market has been adversely affected by declining unit prices for personal computers and other equipment. In addition, competition among volume retailers and other sales outlets has intensified, resulting in difficult market conditions.

● Networks construction and systems integration are a pillar of the Company's software development and sales operations. Depending on the customer's requirements, COMSYS can offer comprehensive systems integration services, encompassing everything from small utilities to total software solutions. More than just the installation of communications networks, this sector offers a wide spectrum of technological services, including the development of systems and software. Products include group ware systems, mobile computing systems, a utility to solve the date

problem at the turn of the century, corporate network rebuilding services, systems integration, and, developed jointly with NTT and Microsoft, an Internet access pack for small and medium-sized offices. A vigorous marketing program has produced healthy performance in terms of both orders received and revenues.

● In the coming term we will further expand our software development operations to encompass network software and systems integration suitable for the era of the Internet. Always anticipating customer requirements, we will seek to increase orders through vigorous expansion of our solutions-oriented marketing program.



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 AND AUDITORS  
As of June 27, 1997



*President*  
Shozo Iwasaki



*Executive Vice President*  
Hironobu Takeuchi



*Senior Managing Director*  
Koichi Kinoshita



*Senior Managing Director*  
Ryuichi Arano



*Managing Director*  
Akihiro Shibata



*Managing Director*  
Yoshimi Watanabe



*Managing Director*  
Kiyoto Kuwabara



*Managing Director*  
Michiaki Ono



*Managing Director*  
Koji Miyata



*Managing Director*  
Isao Iijima

*Directors*

Takuo Sue  
Minoru Nakano  
Takaaki Okayama  
Masahide Kajiyama  
Kensuke Yabuki  
Yasunobu Sasaki  
Ko Tamai

Katsuhiko Tanikawa  
Tadashi Matsumoto  
Tatsuya Sato  
Kyoichi Suzuki  
Syotaro Chikamoto  
Teruji Mukai

*Standing Auditors*

Takashi Kato  
Masaharu Ogawa

*Auditors*

Yuzo Hashimoto  
Sadanori Okada

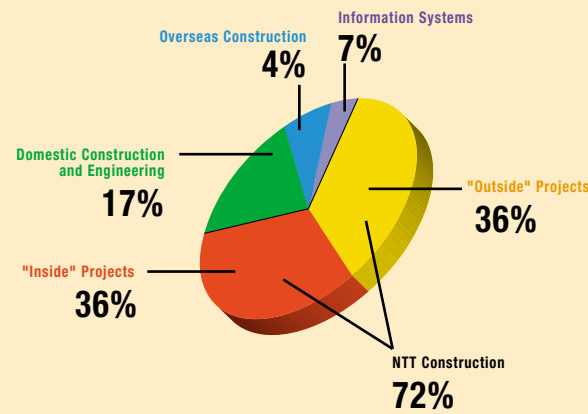
FINANCIAL SECTION



Financial Review	20
Selected Financial and Operating Data	23
Non-Consolidated Balance Sheets	24
Non-Consolidated Statements of Income	26
Non-Consolidated Statements of Shareholders' Equity	27
Non-Consolidated Statements of Cash Flows	28
Notes to the Non-Consolidated Financial Statements	29
Report of Independent Certified Public Accountants	32
Summary of Consolidated Performance	33

FINANCIAL REVIEW

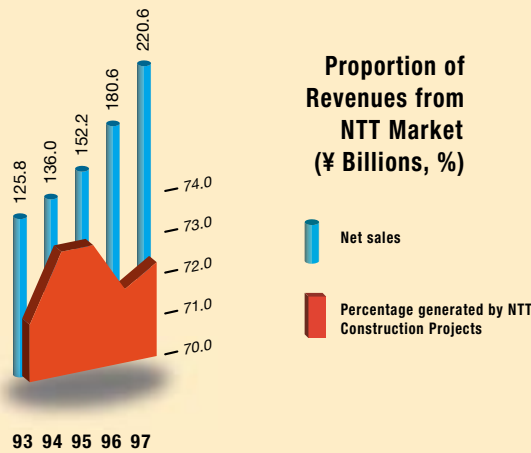
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Sales by Business Category  
Nippon COMSYS Corporation

	Millions of yen					Thousands of U.S. dollars
	1993	1994	1995	1996	1997	1997
<b>Construction Business</b>						
NTT Construction	¥ 89,861	¥ 99,297	¥111,053	¥129,613	¥159,387	\$1,285,379
Domestic Construction and Engineering	19,467	20,944	19,392	28,706	37,415	301,734
Overseas Construction	3,738	4,274	8,729	6,697	8,925	71,975
<b>Other Business</b>						
Information Systems	12,705	11,522	13,039	15,613	14,863	119,863
<b>Total</b>	¥125,771	¥136,037	¥152,213	¥180,629	¥220,590	\$1,778,951

Note: Yen figures have been converted from U.S. dollars at the rate of ¥124.00=US\$1, rounded down, for convenience only, from an approximate exchange rate of ¥124.10 to the dollar on March 31, 1997.



Revenues

Japan's economic recovery remained weak in fiscal 1996. However, the decline of the value of the yen sparked an increase in exports, and the Japanese government kept interest rates at extremely low levels. Capital investment was up in some industrial sectors, and there was a transient surge in consumer spending as people rushed to make major purchases before the increase in the consumption tax. Despite these unsettled conditions, net sales increased 22.1 percent to ¥220,590 million (US\$1,779 million).

Revenues in the NTT construction sector grew 23.0 percent to ¥159,387 million (US\$1,285 million). This

is some 72 percent of the Company's total revenues, virtually unchanged from the previous term. Of this, "outside" projects accounted for ¥79,306 million (US\$639 million), and "inside" projects for ¥80,081 million (US\$646 million).

The domestic construction and engineering sector posted growth in net sales of 30.3 percent to ¥37,415 million (US\$302 million). Coming as it does on the heels of a 48.0 percent jump in the previous fiscal year, this reflects the success of our efforts to expand non-NTT operations. The overseas construction sector achieved a 33.3 percent increase in revenues, to ¥8,925 million (US\$72 million). The information systems sector, which posted double-digit revenue growth last year, saw sales decline 4.8 percent to ¥14,863 million (US\$120 million).

Results of Operations

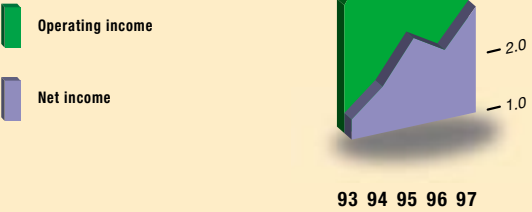
Cost of sales as a percentage of sales remained at the 87 percent level. Revenue growth resulted in a 27.0 percent increase in gross profit, to ¥27,890 million (US\$225 million). Selling, general, and administrative expenses edged up 6.6 percent to ¥14,308 million (US\$115 million), but as a percentage of gross profit declined to 51.3 percent, a ten percentage-point improvement over the previous year. As a result, operating income jumped 59.0 percent to ¥13,582 million (US\$110 million).

Income before income taxes also showed substantial growth, rising 65.6 percent to ¥13,397 million (US\$108 million), despite declines in interest and dividend income and other income. The effective income tax rate was fairly steady at 53.2 percent, almost unchanged from last year's from 53.8 percent. These factors allowed net income to surge 67.5 percent to ¥6,267 million (US\$51 million). Net income per share rose to ¥54.27 (US\$0.44), and dividends were increased to ¥11.75 (US\$0.09).

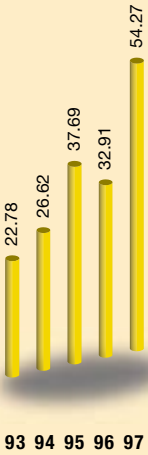
Financial Position

Cash and time deposits contracted a further 18.1 percent during this term, declining to ¥21,171 million (US\$171 million), while the accumulated cost of construction in progress rose 8.2 percent to ¥18,375 million

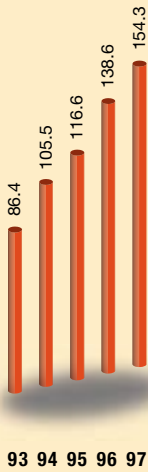
Operating Income and Net Income as Percent of Revenues (%)



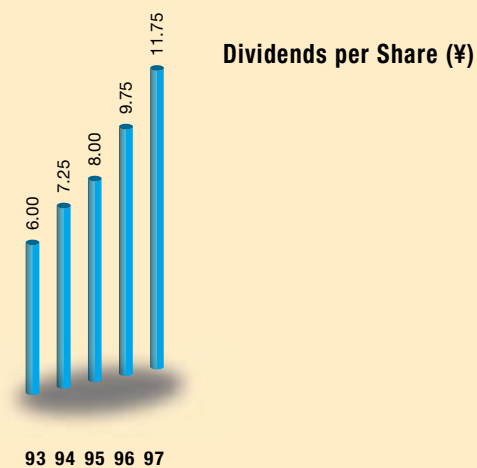
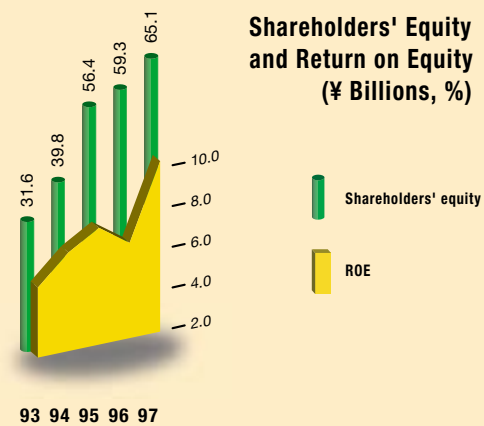
Net Income per Share (¥)



Total Assets (¥ Billions)







(US\$148 million). The Company reduced its marketable securities holdings by 9.4 percent to ¥15,411 million (US\$124 million). Notes and accounts receivable grew 39.4 percent to ¥58,091 million (US\$468 million), the ¥16,420 million (US\$132 million) increase more than offsetting the declines in other areas. Together with the growth in accumulated cost of construction in progress, this produced 11.1 percent growth in current assets, to ¥114,362 million (US\$922 million). Current liabilities rose 23.3 percent to ¥57,388 million (US\$463 million), chiefly as the result of higher trade payables and income taxes. As a result of the foregoing, the current ratio declined from last year's 2.2 to 2.0.

Investments and other assets were increased by 36.2 percent to ¥12,740 million (US\$103 million). Total property and equipment edged up 5.8 percent to ¥26,247 million (US\$212 million), after depreciation. Total assets thus rose 11.3 percent to ¥154,246 million (US\$1,244 million). Shareholders' equity rose 9.8 percent to ¥65,096 million (US\$525 million).

#### Cash Flows

Despite the 67.5 percent jump in net income, net cash provided by operating activities sank to a negative figure of ¥1,832 million (US\$15 million). This was primarily due to the increase in notes and accounts receivable, arising from the increase in net sales. Net cash used in investing activities, at ¥6,648 million (US\$54 million), was less than half the total in the previous year.

Proceeds from issuance of notes with warrants fell to zero for the term, while proceeds from the issuance of convertible bonds rose from zero in the previous year to ¥10,000 million (US\$81 million). The Company posted ¥335 million (US\$3 million) in proceeds from exercise of warrants. However, redemption of notes with warrants in the amount of ¥7,016 million (US\$57 million) was the major factor in a 68.6 percent decline in net cash provided by financing activities, which fell to ¥2,197 million (US\$18 million). Cash and cash equivalents fell 14.7 percent to ¥36,582 million (US\$295 million).

## Nippon COMSYS Corporation SELECTED FINANCIAL AND OPERATING DATA

Years ended March 31, 1993, 1994, 1995, 1996 and 1997

	Millions of yen					Thousands of U.S. dollars
	1993	1994	1995	1996	1997	1997
<b>Results of Operations:</b>						
Net sales	¥125,771	¥136,037	¥152,213	¥180,629	<b>¥220,590</b>	<b>\$1,778,951</b>
Operating income	3,929	5,698	7,042	8,544	<b>13,582</b>	<b>109,532</b>
Income before income taxes	4,071	5,759	7,127	8,092	<b>13,397</b>	<b>108,040</b>
Net income	1,631	2,419	3,637	3,742	<b>6,267</b>	<b>50,540</b>
<b>Financial Position:</b>						
Total assets	¥ 86,382	¥105,450	¥116,617	¥138,610	<b>¥154,246</b>	<b>\$1,243,919</b>
Property and equipment	12,773	15,866	17,664	24,814	<b>26,247</b>	<b>211,669</b>
Long-term debt	20,510	17,742	25,082	24,995	<b>25,128</b>	<b>202,645</b>
Shareholders' equity	31,556	39,821	56,395	59,277	<b>65,096</b>	<b>524,968</b>
<b>Per Share of Common Stock (in yen and dollars):</b>						
Net income	¥ 22.78	¥ 26.62	¥ 37.70	¥ 32.91	<b>¥ 54.27</b>	<b>\$ 0.44</b>
Cash dividends	6.00	7.25	8.00	9.75	<b>11.75</b>	<b>0.09</b>
Shareholders' equity	430.18	428.19	539.08	514.90	<b>562.23</b>	<b>4.53</b>
<b>Financial Ratios:</b>						
Operating income to net sales	3.12%	4.19%	4.63%	4.73%	<b>6.16%</b>	
Net income to net sales	1.30	1.78	2.39	2.07	<b>2.84</b>	
Capital ratio	36.5	37.8	48.4	42.8	<b>42.2</b>	
Return on equity	5.4	6.8	7.6	6.5	<b>10.1</b>	
<b>Other Statistics:</b>						
New orders received during the year	¥128,073	¥135,762	¥143,034	¥186,180	<b>¥225,147</b>	<b>\$1,815,702</b>
Contract backlog at end of the year	57,030	56,755	47,576	53,127	<b>57,684</b>	<b>465,194</b>
Common stock price range (in yen):						
High	¥ 1,130	¥ 1,570	¥ 1,280	¥ 1,450	<b>¥ 1,560</b>	
Low	901	930	1,180	980	<b>1,190</b>	

Note: Yen figures have been converted from U.S. dollars at the rate of ¥124.00=US\$1, rounded down, for convenience only, from an approximate exchange rate of ¥124.10 to the dollar on March 31, 1997.

Nippon COMSYS Corporation  
**NON-CONSOLIDATED BALANCE SHEETS**  
As of March 31, 1996 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	1996	1997	1997
<b>Current Assets:</b>			
Cash and time deposits	¥ 25,852	¥ 21,171	\$ 170,734
Marketable securities (Note 3)	17,013	15,411	124,282
Notes and accounts receivable-trade	41,671	58,091	468,476
Inventories:			
Accumulated cost of construction in progress	16,978	18,375	148,185
Other	247	276	2,226
Other current assets	1,292	1,169	9,427
Less: Allowance for doubtful receivables	(105)	(131)	(1,056)
Total current assets	102,948	114,362	922,274
<b>Investments and Other Assets:</b>			
Investment securities:			
Subsidiaries and affiliates	1,087	1,053	8,492
Other (Note 3)	2,263	4,985	40,202
Long-term loans receivable:			
Subsidiaries and affiliates	522	356	2,871
Other	2,403	2,769	22,330
Other assets	3,083	3,597	29,008
Less: Allowance for doubtful receivables	(6)	(20)	(161)
Total investments and other assets	9,352	12,740	102,742
<b>Property and Equipment:</b>			
Land	14,696	16,320	131,613
Buildings and structures	10,400	10,523	84,863
Machinery and equipment	6,855	7,709	62,169
Construction in progress	—	21	169
Less: Accumulated depreciation	(7,137)	(8,326)	(67,145)
Total property and equipment	24,814	26,247	211,669
<b>Deferred Charges:</b>			
Discount on notes payable	1,496	897	7,234
Total deferred charges	1,496	897	7,234
	¥138,610	¥154,246	\$1,243,919

See Notes to the Non-Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
LIABILITIES AND SHAREHOLDERS' EQUITY	1996	1997	1997
<b>Current Liabilities:</b>			
Short-term bank loans (Note 4)	¥ 440	¥ 440	\$ 3,548
Current portion of convertibles bonds (Note 4)	393	—	—
Current portion of notes with warrants (Note 4)	7,016	9,867	79,572
Accounts payable:			
Trade	21,675	29,108	234,742
Other	2,774	2,228	17,968
Advances received on construction in progress	5,257	4,372	35,258
Income taxes payable	3,649	6,195	49,960
Warrants	2,396	2,351	18,960
Other current liabilities	2,934	2,827	22,798
Total current liabilities	46,534	57,388	462,806
<b>Long-Term Liabilities:</b>			
Notes (Note 4)	15,128	15,128	122,000
Convertibles bonds (Note 4)	—	10,000	80,645
Notes with warrants (Note 4)	9,867	—	—
Accrued severance indemnities	6,663	6,161	49,685
Other long-term liabilities	1,141	473	3,815
Total long-term liabilities	32,799	31,762	256,145
<b>Contingent Liabilities</b> (Note 5)			
<b>Shareholders' Equity</b> (Note 6):			
Common stock, par value ¥50 per share:			
Authorized			
—250,000 thousand shares			
Issued			
—115,124 thousand shares (31st March, 1996)	16,895	—	—
—115,782 thousand shares (31st March, 1997)	—	17,250	139,113
Additional paid-in capital	14,122	14,521	117,105
Legal reserve	1,141	1,271	10,250
Retained earnings	27,119	32,054	258,500
Total shareholders' equity	59,277	65,096	524,968
	¥138,610	¥154,246	\$1,243,919



Nippon COMSYS Corporation  
**Non-Consolidated Statements of Income**  
Years ended March 31, 1996 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1996	1997	1997
<b>Net Sales:</b>			
Construction contracts	¥165,016	<b>¥205,727</b>	<b>\$1,659,088</b>
Other	15,613	<b>14,863</b>	<b>119,863</b>
	180,629	<b>220,590</b>	<b>1,778,951</b>
<b>Cost of Sales:</b>			
Construction contracts	145,238	<b>179,917</b>	<b>1,450,943</b>
Other	13,426	<b>12,783</b>	<b>103,089</b>
	158,664	<b>192,700</b>	<b>1,554,032</b>
Gross profits	21,965	<b>27,890</b>	<b>224,919</b>
<b>Selling, General and Administrative Expenses</b>	13,421	<b>14,308</b>	<b>115,387</b>
Operating income	8,544	<b>13,582</b>	<b>109,532</b>
<b>Other Income (Expenses):</b>			
Interest and dividend income	720	<b>541</b>	<b>4,363</b>
Interest expenses	(30)	<b>(7)</b>	<b>(57)</b>
Other, net (Note 7)	(1,142)	<b>(719)</b>	<b>(5,798)</b>
	(452)	<b>(185)</b>	<b>(1,492)</b>
<b>Income before Income Taxes</b>	8,092	<b>13,397</b>	<b>108,040</b>
<b>Income Taxes</b> (Note 8)	4,350	<b>7,130</b>	<b>57,500</b>
<b>Net Income</b>	¥ 3,742	<b>¥ 6,267</b>	<b>\$ 50,540</b>

	Yen	U.S. dollars (Note 2)
<b>Per Share:</b>		
Net income	¥32.91	<b>¥54.27</b>
Cash dividends	9.75	<b>11.75</b>

See Notes to the Non-Consolidated Financial Statements.

Nippon COMSYS Corporation  
**Non-Consolidated Statements of Shareholders' Equity**  
Years ended March 31, 1996 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1996	1997	1997
<b>Common Stock:</b>			
Beginning of period	¥16,869	<b>¥16,895</b>	<b>\$136,250</b>
Add:			
Conversion of convertible bonds	26	<b>187</b>	<b>1,508</b>
Exercise of warrants	—	<b>168</b>	<b>1,355</b>
End of period	¥16,895	<b>¥17,250</b>	<b>\$139,113</b>
<b>Additional Paid-in Capital:</b>			
Beginning of period	¥14,096	<b>¥14,122</b>	<b>\$113,887</b>
Add:			
Conversion of convertible bonds	26	<b>187</b>	<b>1,508</b>
Exercise of warrants	—	<b>212</b>	<b>1,710</b>
End of period	¥14,122	<b>¥14,521</b>	<b>\$117,105</b>
<b>Legal Reserve:</b>			
Beginning of period	¥ 1,049	<b>¥ 1,141</b>	<b>\$ 9,202</b>
Add:			
Transfer from retained earnings	92	<b>130</b>	<b>1,048</b>
End of period	¥ 1,141	<b>¥ 1,271</b>	<b>\$ 10,250</b>
<b>Retained Earnings:</b>			
Beginning of period	¥24,381	<b>¥27,119</b>	<b>\$218,701</b>
Add/(deduct):			
Net income	3,742	<b>6,267</b>	<b>50,540</b>
Transfer to legal reserve	(92)	<b>(130)</b>	<b>(1,048)</b>
Cash dividends	(837)	<b>(1,122)</b>	<b>(9,048)</b>
Bonuses to directors	(75)	<b>(80)</b>	<b>(645)</b>
End of period	¥27,119	<b>¥32,054</b>	<b>\$258,500</b>

See Notes to the Non-Consolidated Financial Statements.

Nippon COMSYS Corporation  
**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years ended March 31, 1996 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1996	1997	1997
<b>Cash Flows from Operating Activities:</b>			
Net income	¥ 3,742	¥ 6,267	\$ 50,540
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,950	2,135	17,218
Provision for accrued severance indemnities, less payments	265	(444)	(3,580)
Changes in assets and liabilities			
Notes and accounts receivable-trade	(14,090)	(16,420)	(132,419)
Inventories	2,120	(1,426)	(11,500)
Other current assets	(377)	123	992
Accounts payable	10,264	6,887	55,540
Advances received on construction in progress	822	(885)	(7,137)
Income tax payable	1,159	2,546	20,532
Employees' saving deposits	(2,066)	—	—
Other liabilities	644	(107)	(863)
Other, net	980	(508)	(4,097)
Net cash provided by operating activities	5,413	(1,832)	(14,774)
<b>Cash Flows from Investing Activities:</b>			
Expenditure for property and equipment	(10,491)	(3,246)	(26,177)
(Increase) decrease in investments and other assets	(535)	(3,402)	(27,436)
Net cash used in investing activities	(11,026)	(6,648)	(53,613)
<b>Cash Flows from Financing Activities:</b>			
Proceeds from issuance of convertible bonds	—	10,000	80,645
Proceeds from issuance of notes with warrants	7,880	—	—
Proceeds from exercise of warrants	—	335	2,702
Redemption of notes with warrants	—	(7,016)	(56,581)
Increase (decrease) in short-term bank loans	(40)	—	—
Cash dividends paid	(837)	(1,122)	(9,048)
Net cash provided by financing activities	7,003	2,197	17,718
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,390	(6,283)	(50,669)
<b>Cash and Cash Equivalents at Beginning of Year</b>	41,475	42,865	345,685
<b>Cash and Cash Equivalents at End of Year</b>	¥42,865	¥36,582	\$295,016
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Cash paid during the year for:			
Interest	¥ 674	¥ 678	\$ 5,468
Income taxes	4,471	6,526	52,629
Conversion of long-term debt to common stock	52	374	3,016

See Notes to the Non-Consolidated Financial Statements.

Nippon COMSYS Corporation  
**NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS**

**1. Significant Accounting Policies**

*(a) Basis of presenting non-consolidated financial statements*

The accompanying non-consolidated financial statements have been prepared from accounts and records maintained in Japanese yen by Nippon COMSYS Corporation (the “Company”) in accordance with accounting principles and practices generally accepted in Japan, and from non-consolidated financial statements filed with the Minister of Finance in Japan. Certain items presented in the original financial statements have been reclassified, for the convenience of readers outside Japan. The preparation of non-consolidated statements of shareholders’ equity and cash flows are not required in Japan. They are, however, presented herein for the reader’s convenience.

*(b) Point of sales—construction contracts*

Construction contracts of the Company are accounted for by the “completed contract method” under which “net sales” are recognized when the contracts are completed. 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) Accumulated cost of construction in progress*

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

*(d) Marketable securities and investment securities*

Marketable securities (current) and investment securities (non-current) 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. 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) Inventories*

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

*(f) Depreciation*

Depreciation of property and equipment is computed on 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 65 years
Machinery and equipment	3 to 10 years

*(g) Allowance for doubtful receivables*

Allowance for doubtful receivables is provided at the maximum amount permitted to be charged to income under Japanese income tax laws plus an estimated amount of possible bad debts.

*(h) Accrued severance indemnities*

Employees of the Company 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 trustee employee pension fund, composed of a portion covering the 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 severance indemnities benefits is to contribute and charge to income normal costs as accrued on the basis of an accepted actuarial method and prior service costs as amortized over 20 years.

The assets of the funds for the severance indemnities benefits at 31st March, 1997 were ¥15,609 million (U.S.\$125,879 thousand).

Before the contributory trustee employee pension fund was established, severance indemnities benef its had been accounted for and reserved as “accrued severance indemnities” and funded through tax-qualified pension plans. On its establishment, the all assets of the tax-qualified pension plans were transferred to the contributory trustee employee pension fund, and the remaining balance of “accrued severance indemnities” were/would be amortized in each years over 20 years.

As is customary practice in Japan, the Company has unfunded lump-sum severance indemnities for directors and statutory auditors providing for 100 per cent. of the liability which would accrue if all directors and statutory auditors terminated their services at the balance sheet date.

*(i) Warrants and discount on notes payable*

Effective after 1st April, 1994, the warrants are accounted for separately from the notes and treated as a current liability for the purpose of balance sheets, and discount on notes payable arising from the issuance of notes with warrants is included in deferred charges for the purpose of balance sheets and is/will be amortized by equal amounts over the periods up to maturity, in accordance with accounting principle generally accepted in Japan.

*(j) Income taxes*

Income taxes in Japan applicable to the Company are comprised of corporation tax, inhabitants’ taxes and enter prise tax. As is common practice in Japan, enterprise tax is included under “selling, general, and administrative expenses” in the statements of income.

Deferred income taxes pertaining to timing differences between financial and tax reporting are not provided for.



(k) Net income and cash dividends per share

The computations of net income per Share shown in the non-consolidated statements of income are based on the weighted average number of Shares in issue during the period. The number of Shares used for computing net income per Share was 113,742 thousand and 115,480 thousand Share for the two years in the period ended 31st March, 1997, respectively. Cash dividends per Share are based on the cash dividends paid in respect to the relevant period.

(l) Cash flow information

The Company considers marketable securities (current) and all time deposits with original maturities of one year or less, which can be withdrawn at least at face amount at any time without any penalties, to be cash equivalents.

2. U.S. Dollar Amounts

The accounts of the Company are maintained in Japanese yen. The accompanying non-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 ¥124.00=U.S.\$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.

3. Market Value Information of Securities

At 31st March, 1996 and 1997, book value and market value of marketable securities and investment securities, as to which market value information is required to be disclosed, were as follows:

31st March	Millions of yen				Thousands of U.S. dollars	
	1996		1997		1997	
	Book value	Market value	Book value	Market value	Book value	Market value
Marketable securities:						
Stocks	¥ 1	¥ 1	¥ 2	¥ 2	\$ 16	\$ 16
Bonds and others	5,500	5,704	5,500	5,761	44,355	46,460
Investment securities:						
Stocks	1,332	4,676	1,341	3,771	10,815	30,411
Bonds	8	10	1,127	1,184	9,089	9,548
Others	359	367	349	317	2,814	2,557
	¥7,200	¥10,758	¥8,319	¥11,035	\$67,089	\$88,992

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

Short-term bank loans are generally represented by 365-day notes with interest rates principally of 1.625 per cent. at 31st March, 1996 and 1997, respectively.

At 31st March, 1996 and 1997, long-term debt consisted of the following:

31st March	Millions of yen		Thousands of U.S. dollars
	1996	1997	1997
2.1 per cent. yen secured convertible bonds due 1997	¥ 393	¥ —	\$ —
2.625 per cent. U.S. dollar guaranteed notes due 1996 with warrants	7,016	—	—
1.125 per cent. U.S. dollar notes due 1998 with warrants	9,867	9,867	79,572
3.750 per cent. U.S. dollar notes due 1999	7,755	7,755	62,540
0.5 per cent. Swiss franc notes due 1999	7,373	7,373	59,460
0.3 per cent. yen unsecured convertible bonds due 2003	—	10,000	80,645
	¥32,404	¥34,995	\$282,217
Current portion	7,409	9,867	79,572
	¥24,995	¥25,128	\$202,645

Convertible bonds

At 31st March, 1997, unsecured convertible bonds consisted of the following:

The original amount issued at 24th, June, 1996	¥10,000 million
Balance as at 31st March, 1997	¥10,000 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, 1997	¥1,435 (U.S.\$11.57)

The number of shares of common stock required for conversion of the above unsecured convertible bonds outstanding at 31st March, 1997 at the current conversion price would have been approximately 6,969 thousand.

Notes, warrants and notes with warrants

At 31st March, 1997, notes and notes with warrants consisted of the following:

	Notes (*1)	Notes (*1)	Notes with Warrants
	US\$100,000,000	SF100,000,000	US\$100,000,000
Date of issue	30th March, 1995	7th September, 1995	3rd March, 1994
Interest rate	3.750%	0.5%	1.125%
Maturity date	30th March, 1999	7th September, 1999	3rd March, 1998
Warrants exercisable:			
On and after	10th April, 1995	21st September, 1995	17th March, 1994
Up to and including	16th March, 1999	31st August, 1995	24th February, 1998
Subscription price:			
At 31st March, 1997	¥1,146.4 (U.S.\$9.25)	¥1,353 (U.S.\$10.91)	¥1,338.9 (U.S.\$10.80)

Notes: (\*1) See note 1 (i) of the Notes to the non-consolidated financial statements.

The number of shares of common stock required for exercising of the above warrants remaining unexercised at 31st March, 1997 at the current subscription prices would have been approximately 21,241 thousand.

The conversion price of the above convertible bonds and subscription prices of the above warrants are subject to adjustment under certain circumstances, including stock splits pursuant to the relevant agreement.

The Company entered into long-term forward foreign exchange contracts with banks to hedge their payment of the aforementioned U.S. dollar notes and notes with warrants. Consequently, the notes were translated at the contracted rate, and the resulting translation gains are deferred as “other long-term liability”, and amortized and credited to “interest expenses” each year over the period up to maturity.

5. Contingent Liabilities

At 31st March, 1996 and 1997, contingent liabilities consisted of the following:

31st March	Millions of yen		Thousands of U.S. dollars
	1996	1997	1997
Guarantee of loans borrowed by:			
Thai COMSYS and Jackson Co.,Ltd.	¥ 4,952	¥ 5,252	\$ 42,355
Thai Telecommunications Engineering Co.,Ltd.	3,894	4,510	36,371
COMSYS-TTEC J.V.	4,311	4,595	37,056
Jackson-COMSYS J.V.	—	2,379	19,185
Other	1,254	1,931	15,573
	¥14,411	¥18,667	\$150,540

6. 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.

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 with the minimum of ¥50 per share. The remaining portion of the proceeds is accounted for as an addition to “additional paid-in capital.”

7. Other Income and Expenses

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

Years ended 31st March	Millions of yen		Thousands of U.S. dollars
	1996	1997	1997
Write-down of investment securities	¥ —	¥ (19)	\$ (153)
Expenses on issue of notes with warrants	(174)	—	—
Expenses on issue of unsecured convertible bonds	—	(240)	(1,935)
Amortization of discounts on note premium	(599)	(599)	(4,831)
Other	(369)	139	1,121
	¥(1,142)	¥(719)	\$(5,798)

8. Income Taxes

The Company is subject to several Japanese taxes based on income which, in the aggregate, resulted in normal statutory tax rates of approximately 52 per cent. for each of the two years in the period ended 31st March, 1997.

The effective tax rates in the non-consolidated statements of income differ from the normal statutory tax rates 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.

9. Subsequent Event

On 27th June, 1997, the shareholders of the Company approved the following appropriations of retained earnings:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥1,360	\$ 10,968
Transfer to legal reserve	150	1,210
Bonuses to directors	75	605

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

To the Board of Directors,  
Nippon COMSYS Corporation

We have examined the non-consolidated balance sheets of Nippon COMSYS Corporation as of 31st March, 1996 and 1997, and the related non-consolidated statements of income, shareholders' equity and cash flows for each of the two years in the period ended 31st March, 1997, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards 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 accompanying non-consolidated financial statements present fairly the financial position of Nippon COMSYS Corporation at 31st March, 1996 and 1997, and the results of its operations and cash flows for each of the two years in the period ended 31st March, 1997, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

*吉野昌洋*  
Masatoshi Yoshino

*宮下英次*  
Eiji Miyashita

*丹羽 秀夫*  
Hideo Niwa

Certified Public Accountants

Tokyo, Japan  
27th June, 1997

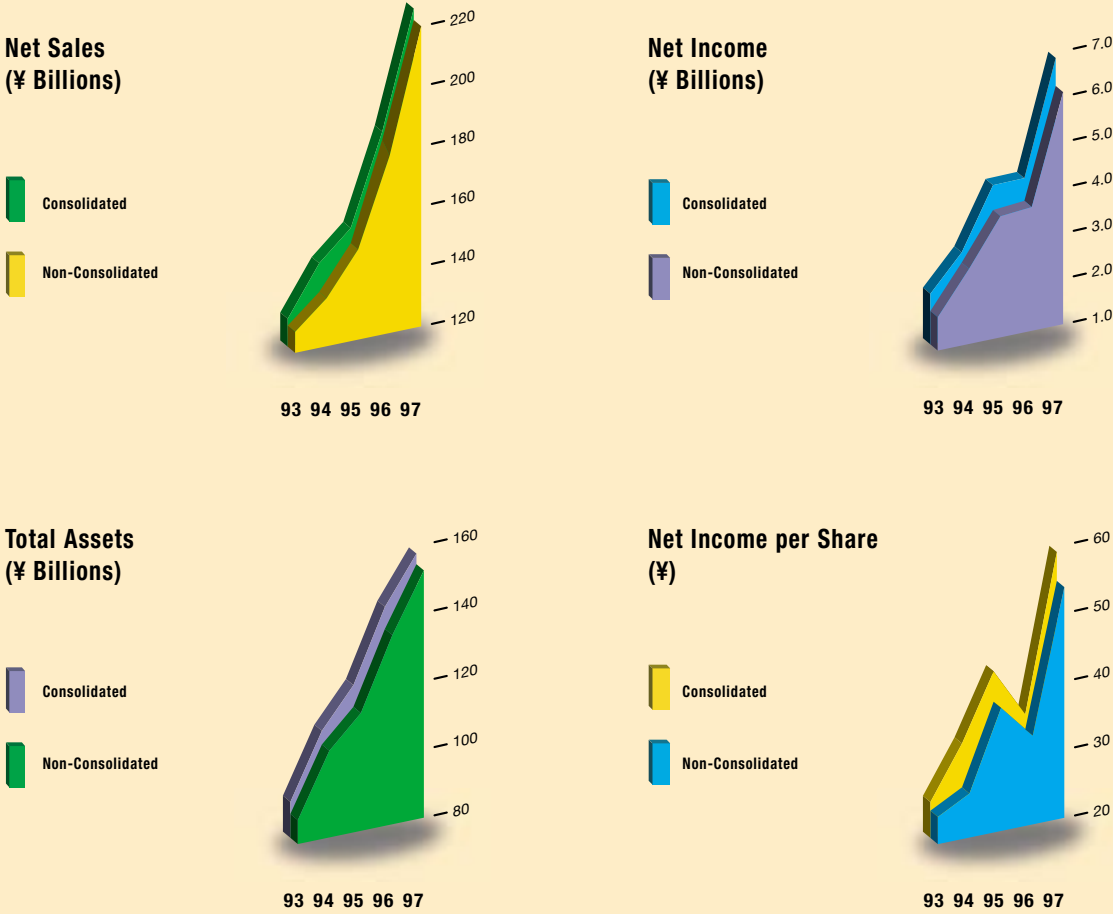
SUMMARY OF CONSOLIDATED PERFORMANCE

Nippon COMSYS Corporation and Consolidated Subsidiaries

Years ended March 31, 1996 and 1997

	Millions of yen		Thousands of U.S. dollars	Change (%)
	1996	1997	1997	
Net sales	¥184,595	¥221,636	\$1,787,387	20.1%
Operating income	8,737	13,733	110,750	57.2%
Net income	4,156	6,831	55,089	64.4%
Total assets	142,765	158,839	1,280,960	11.3%
Shareholders' equity	62,622	68,979	556,282	10.2%
	Yen		U.S. dollars	
Per share:				
Net income	¥36.54	¥59.15	\$0.48	61.9%
Cash dividends	9.75	11.75	0.09	20.5%

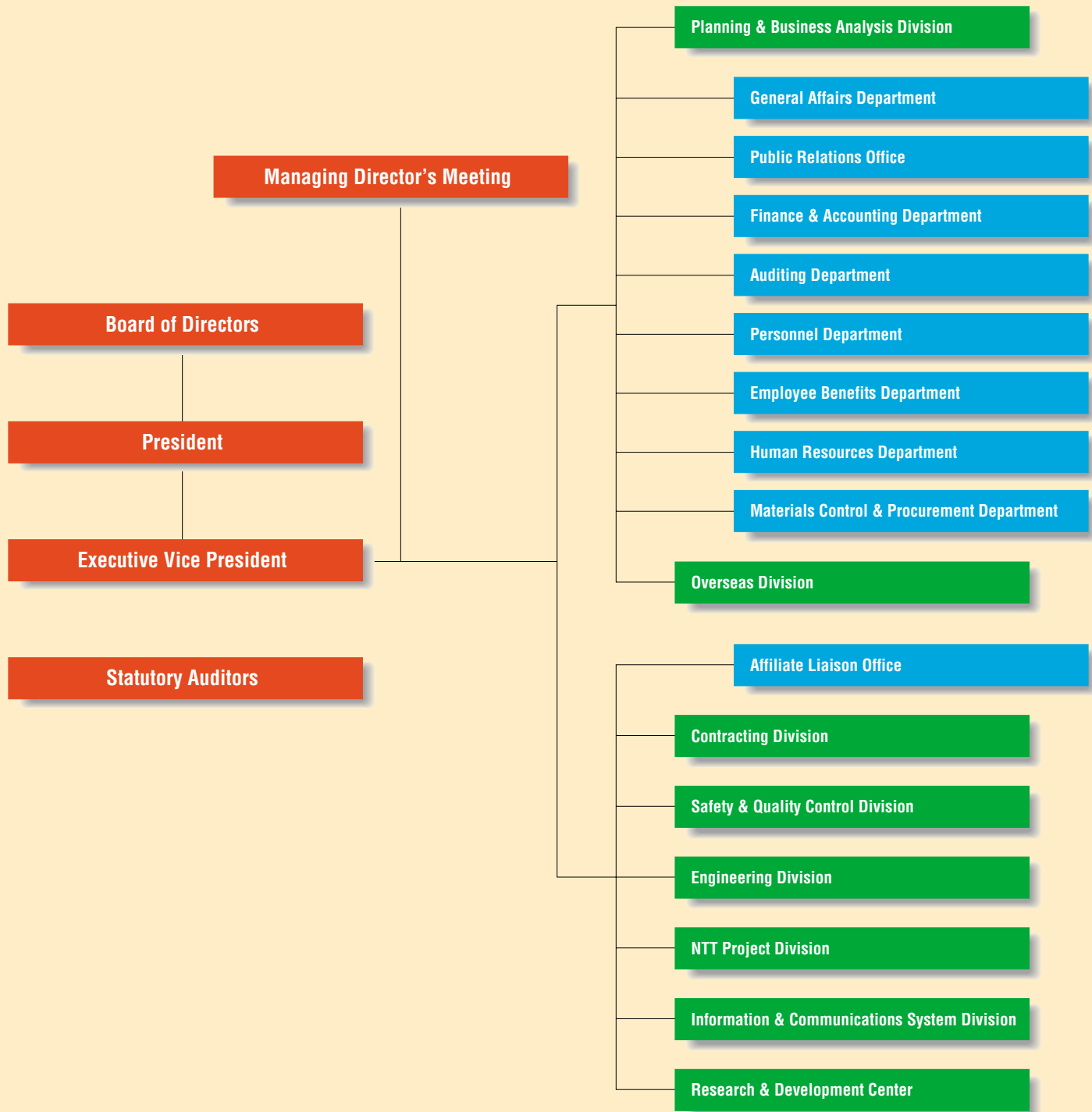
Note: Yen figures have been converted from U.S. dollars at the rate of ¥124.00=US\$1, rounded down, for convenience only, from an approximate exchange rate of ¥124.10 to the dollar on March 31, 1997.



## ORGANIZATION CHART

As of July 1, 1997

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## CORPORATE INFORMATION

As of March 31, 1997

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### Head Office:

23-14, Takanawa 3-chome, Minato-ku  
Tokyo 108, Japan  
Tel: (03) 3448-7031

### Overseas Division:

Tel: (03) 3448-7181  
Fax: (03) 3440-5941

### Branch Offices:

Hokkaido, Tohoku, Akita, Kantominami,  
Kantonaka, Kantokita, Shinetsu, Niigata,  
Tokai, Hokuriku, Kansai, Chugoku, Shikoku,  
Kyushu, Okinawa

### Overseas Liaison Office:

Bangkok, Thailand Tel: 308-2450

### Establishment:

1951

### Paid in Capital:

¥ 17,250 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

### Employees:

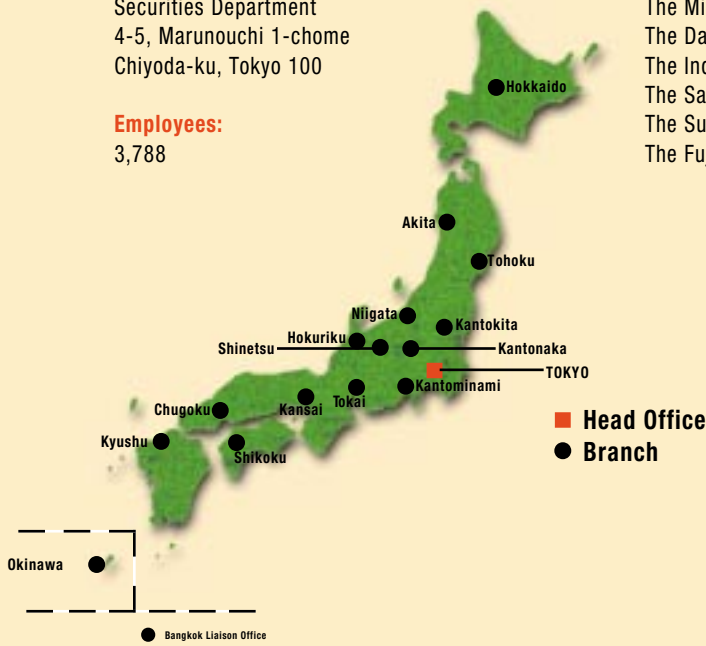
3,788

### Main Clients:

Nippon Telegraph and Telephone Corporation (NTT)  
Kokusai Denshin Denwa Co., Ltd. (KDD)  
DDI Corporation  
Tokyo Telecommunication Network Co., Inc. (TTNet)  
Sharp Corporation  
Japan Highway Public Corporation  
Defense Facilities Administration Agency  
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  
Marubeni Corporation  
Mitsui & Co., Ltd.  
Sumitomo Corporation  
Lucent Technologies  
Telephone Organization of Thailand (Thailand)  
TelecomAsia Corporation Public Co., Ltd. (Thailand)  
Thai Telephone & Telecommunication Public Co., Ltd. (Thailand)  
Philippine Long Distance Telephone Co. (Philippines)  
International Communications Corp., 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 Industrial Bank of Japan, Limited  
The Sanwa Bank, Limited  
The Sumitomo Bank, Limited  
The Fuji Bank, Limited





**CORPORATE DIRECTORY**  
*Nippon COMSYS Corporation*  
*As of March 31, 1997*

<i><b>Company Name</b></i>	<i><b>Principal Business</b></i>	<i><b>Paid-in Capital</b></i>	<i><b>Percentage Owned (%)</b></i>
<i><b>Consolidated Subsidiaries</b></i>			
Okoshi Denken Co., Ltd.	Telecommunications engineering and electrical engineering	¥60 million	96.4 %
Tokyo Denwa Shisetsu Co., Ltd.	Design of telecommunications facilities and civil engineering projects	¥40 million	85.3
<i><b>Major Non-Consolidated Subsidiaries</b></i>			
COMSYS Tusan Co., Ltd.	Sales of construction materials	¥60 million	94
Nippo Kensetsu Kogyo Co., Ltd.	Civil engineering	¥50 million	55
COMSYS Techno Co., Ltd.	Planning and consultation with regard to information-processing technology	¥50 million	100
COMSYS Business Service Co., Ltd.	Construction of telecommunications facilities	¥304 million	100
<i><b>Major Affiliates</b></i>			
<i><b>Domestic:</b></i>			
Tokyo Tsuken Co., Ltd.	Construction of telecommunications facilities	¥54 million	35
Nitto Tsuken Co., Ltd.	Construction of telecommunications facilities	¥60 million	33
<i><b>Overseas:</b></i>			
Thai Telecommunications Engineering Co., Ltd.	Technological consulting and engineering services	B15,000 thousand	48
Thai COMSYS & Jackson Co., Ltd.	Technological consulting and engineering services	B2,000 thousand	49
COMSYS Philippines, Inc.	Technological consulting and engineering services	P3,125 thousand	30
CMC Engineering SDN. BHD.	Technological consulting and engineering services	RM500 thousand	59.2



Nippon COMSYS Corporation

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

Telephone: 03-3448-7031