# ANNUAL REPORT 2003

Fiscal Year Ended March 31, 2003

**COMSYS—For Excellence in Telecommunications**

Nippon COMSYS Corporation

## Profile

Nippon COMSYS Corporation was established in 1951, during Japan's postwar turmoil, to undertake the rebuilding of the country's telecommunications infrastructure. That was the year before the establishment of Nippon Telegraph and Telephone Public Corporation, which was later privatized and renamed Nippon Telegraph and Telephone Corporation (NTT). At that time, the primary function of COMSYS was to execute telecommunications network construction projects in support of NTT. The Company subsequently made a place for itself in the industry on the basis of its successes in the postwar construction of Japan's telecommunications infrastructure, and has remained an industry leader to this day.

Because we recognize the importance of novel and creative thinking, each of our employees brings pride to his work, and can take satisfaction in the results of his efforts. Further, by giving maximum freedom of expression to talent and ability, we have fostered an open and innovative corporate culture. In building this team of talented and creative people, we at Nippon COMSYS Corporation are actively working to realize a splendid future, one flourishing with as-yet unborn possibilities.

## Contents



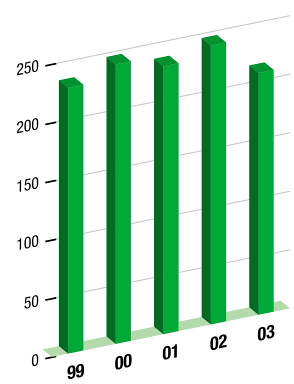
## Consolidated Financial Highlights

Nippon COMSYS Corporation and Consolidated Subsidiaries
Years ended 31st March, 2002 and 2003

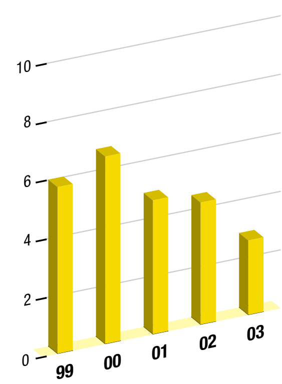
| | Millions of yen | | Thousands of U.S. dollars | Change |
|---|---|---|---|---|
| | 2002 | **2003** | **2003** | (%) |
| Contract backlog at beginning of the year | ¥ 80,461 | **¥ 64,288** | **$ 534,842** | –20.1% |
| Contract backlog at beginning of the year adjusted for newly consolidated subsidiaries | 1,192 | **—** | **—** | — |
| New orders received during the year | 213,986 | **199,495** | **1,659,692** | –6.8% |
| Net sales | 231,351 | **200,610** | **1,668,968** | –13.3% |
| Contract backlog at end of the year | 64,288 | **63,173** | **525,566** | –1.7% |
| | | | | |
| Net income | ¥ 4,107 | **¥ 2,468** | **$ 20,532** | –39.9% |
| Total assets | 190,576 | **166,528** | **1,385,424** | –12.6% |
| Shareholders' equity | 111,919 | **111,724** | **929,484** | –0.2% |
| | Yen | | U.S. dollars | |
| **Per share:** | | | | |
| Net income | | | | |
| — Basic | ¥ 30.29 | **¥ 18.34** | **$ 0.15** | –39.7% |
| — Diluted | 29.01 | **—** | **—** | — |
| Cash dividends | 10.00 | **12.00** | **0.10** | 20.0% |

*Note: 1. For convenience only, the accompanying Japanese yen figures for 2003 have been translated into U.S. dollars at the rate of ¥120.20 to $1, the rate prevailing on 31st March, 2003.*
*2. Net income per share for the year ended 31st March, 2002 have been adjusted to conform with the method required by the GAAP of Japan for computing these figures for the year ended 31st March, 2003.*

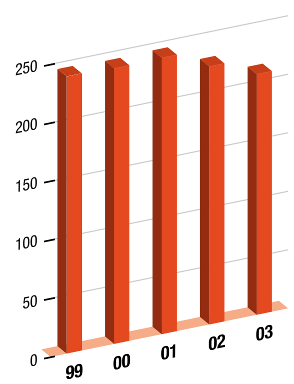
**Net Sales (¥ Billions)**




**Net Income (¥ Billions)**




**New Orders Received (¥ Billions)**



# Letter to Our Shareholders

### Business Environment

During the fiscal year ended March 31, 2003, an increase in exports driven by the US economy and an improvement in corporate profits brought about by restructuring gave rise to a temporary upturn in the Japanese economy. Overall, however, the recovery was weak, as the continuing slump in personal consumption caused by persistently high unemployment negatively impacted the economic climate. The increased sense of uncertainty stemming from the unstable international situation and a worldwide slump in stock prices, among other factors, suggest that, in the immediate future, the business environment will grow even more difficult.

In the telecommunications industry where COMSYS does business, however, there were several positive developments. This fiscal year marked the middle phase of the Japanese government's e-Japan Strategy, which is being implemented with the goal of making Japan the world leader in information technology. This term also saw growth in ADSL services and Internet Protocol (IP) networks and the rapid spread of new services, including third-generation mobile phones and wireless local area network (LAN) services. Despite these favorable trends, competition in the telecommunications market is becoming more intense, and telecommunications firms are engaged in a battle for survival.

Hironobu Takeuchi
*Chairman*

Hirofumi Shimada
*President*

### Business Results

Given this state of affairs, COMSYS has responded to the sweeping reforms taking place in the telecommunications market by integrating and expanding strategic head office divisions, and reinforcing organizational functions in existing sales and marketing divisions and construction engineering division.

The Company's IT Business Division, which was established in preparation for the important roles that the IP and solutions businesses will assume for the Company in the not-too-distant future, is committed to expanding its total solutions initiatives, building on expertise in applications technology and strong performance in communications equipment related projects. The division has produced successful results, as illustrated by orders received from a number of local authorities for large projects involving the establishment of wide area networks (WAN). In the maintenance business, the addition of new surveillance and security diagnosis services has resulted in a transformation from a service focused on fault repair to a comprehensive network management service offering constant monitoring, fault identification, analysis and isolation, and onsite repair of customer networks. In the terminal business, as well, the Company has strengthened efforts in the area of its core competencies, such as the "LAN Convenience Store" service.

Despite these successes, however, restrained capital investments by telecommunications companies such as those of the NTT Group, a re-evaluation of public-sector investment as a result of the government's economic structural reforms, and the effect of general cutbacks in IT investment resulted in a 6.8% year-on-year decline in orders received to ¥199.5 billion. Net sales fell 13.3% year-on-year to ¥200.6 billion, due to the slump in orders.

The Company took various actions to improve profitability, including reducing labor costs by introducing a regional wage structure reflecting actual competitive conditions, achieving personnel reductions by offering temporary assistance for employees seeking other employment, transferring Company employees to affiliates, and the reduced use of temporary employees. The Company also cut subcontracting expenses by strengthening the structure of its subsidiaries and materials costs through detailed implementation of centralized purchasing. The decline in sales and a decline in the unit value of orders caused by increased competition for orders, however, led to a substantial decline in operating income of 38.2% year-on-year to ¥6.5 billion. Net income also fell 39.9% to ¥2,468 million, despite a gain on reversal of the prior service cost of the employee pension fund of ¥1,598 million resulting from a lowering of scheduled interest rates for the pension fund and levels of entitlement. The gain was not enough to offset a special charge of ¥1,234 million arising from temporary measures relating to employees' retirement benefits for the assistance for employees seeking other employment, a loss on liquidation of subsidiaries and affiliates of ¥490 million arising from the reorganization of affiliates, and other expenses, which totaled ¥2,800 million.

Concerning cash dividends to shareholders, COMSYS maintains the basic policy of redistributing profits by taking payout ratios into account and linking returns more directly with business results, while ensuring sufficient internal reserves for reinvestment. Based on this policy, COMSYS declared a year-end dividend of ¥7 per share (ordinary dividend of ¥5 and special dividend of ¥2), resulting in a total dividend of ¥12 per share for this fiscal year. The special dividend is being paid because there will be no retirement of treasury stocks in the next fiscal year, a practice the Company has followed in recent years under its policy of returning profits to shareholders, due to the scheduled business merger between the Company, Sanwa ELEC Co. Ltd., and TOSYS Corporation.

### Outlook for the Next Term

In the telecommunications market, the Company's sphere of business, restraint in capital investments by the NTT Group and other telecommunications companies added to the long-term stagnation of the Japanese economy, making the environment in which the Company operates extremely challenging. Looking ahead, however, measures such as the government's e-Japan Strategy have brought about a demonstrable increase in the use of IP broadband. Currently, the rapid growth of broadband is mainly through ADSL, but intense competition in FTTH is forecast, largely between the NTT Group and actors connected to electric power companies. Last year, the NTT Group launched its "Hikari—Vision for a New Century" under the theme "Broadband leads to the world of resonant communication," displaying a strong desire to take the lead in the "optical" age. In the mobile communications sector, as well, there are huge hopes for third generation mobile phones, yielding an optimistic outlook for this market.

Given circumstances like these, COMSYS is working to ensure that it is ready to provide comprehensive engineering services in this new era of IT innovation, the Company is making the most of the technologies and expertise it has accumulated over the years as a project-based construction business to establish a structure for providing comprehensive services to customers—ranging from IT consulting to design, supply of machinery and equipment, construction engineering, and maintenance. Although it remains extremely difficult to predict the future, the realization of an IT society in the near future is a certainty. COMSYS is determined to play an active role in IT related markets as a comprehensive engineering services firm, providing customers with total solutions for the era of IT innovation.

In light of this situation, and in response to the rapid changes in the telecommunications market, COMSYS has formulated a "New Medium-Term Management Plan"—a three-year plan that will be implemented during fiscal 2003 (fiscal year ending March 31, 2004) in order to execute needed reforms and make clear progress in the strategic direction set by the Company. This medium-term management plan will enhance the Company's business spheres, organization, structure, marketing, and cost competitiveness, clarify its operational strategies in a wide range of areas, including the retention of skilled personnel and Group operations, and ensure that these strategies are reliably executed.

It is with the approval of our shareholders and of the relevant government organizations that COMSYS has agreed in principle to establish a joint holding company through the transfer of shares in September 2003 between COMSYS and Sanwa ELEC Co. Ltd., and TOSYS Corporation. A flexible, yet robust business structure will be built on the basis of this joint holding company, with the target of becoming the leading firm in the industry, which in its role as a comprehensive engineering services firm will respond swiftly to rapid changes in the environment and to fierce competition for orders within the telecommunications project industry, electrical project industry and the IT related business sector.

In this way, we will work proactively as we aim to undertake innovations, retain orders and sales, and strive to reach our income targets.

After the annual shareholders' meeting of June 27, 2002, the COMSYS Board of Directors resolved to change COMSYS's representative directors, as follows. Hironobu Takeuchi, president, was appointed as new chairman, and Hirofumi Shimada, senior executive vice president, as new president.

On behalf of the members of the Board, we would like to extend our sincere appreciation to our valued shareholders, customers, business partners and employees around the world for their support.

June 27, 2003

Hironobu Takeuchi
*Chairman and Representative Director*

Hirofumi Shimada
*President and Representative Director*

# Interview with Hirofumi Shimada, New President of Nippon COMSYS Corporation

*— Becoming a "comprehensive engineering services firm" in the era of IT innovation —*

## *In light of your recent appointment as the new president of Nippon COMSYS, what sort of plans do you have for the Company, and what are your aspirations?*

In taking over the reins of the Company from Chairman Takeuchi, the former president, I take it as an honor to be responsible to our shareholders, customers, and employees.

Amid the deflationary Japanese economy we are now experiencing, markets are shrinking and companies are doing everything they possibly can to retain their competitiveness in a severe business environment. In the world of telecommunications, the move into IP and broadband is in full swing. As a result of advances in the openness of networks, the networks (operators) no longer control demand; it is the end users who are now in a position to select which networks they want. Although there has been a deterioration in the performance of the IT industry, largely related to hardware such as semiconductors, personal computers and the like, the IT service market, which centers on software, is showing healthy growth. Indeed, a paradigm shift is on the verge of taking place, and we believe that we must constantly, and progressively, endeavor to be one step ahead of the times.

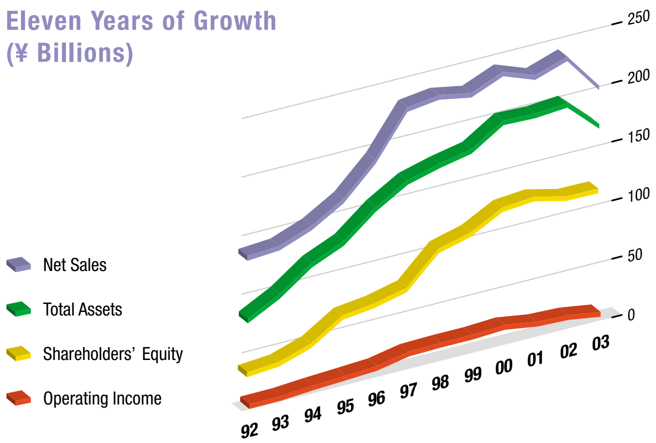
The telecommunications projects industry will not survive unless it changes in response to these changing times. Advances in computer and network technologies have brought with them the IT era, and it is our belief that information technology is capable of bringing about a total reform of management styles, not only mere operational reforms. This is why we can also call today the era of the solutions business. In the future, orders for telecommunications projects will come to be placed as one part of a solution. In order to receive an order as the principal contractor, COMSYS will have to provide a solution that involves all aspects—ranging from IT consulting to design, supply, construction, management and maintenance. This is the reason why our Company has to make this paradigm shift.

Each of us at COMSYS must also change in order to make this paradigm shift. Ironically, I believe that perhaps the largest obstacle preventing us from doing so is our previous successes. We must break away from the concept that "We are successful; our performance is not very good now because the situation is not very good." Nothing will come of this concept. I believe that changing the shape of the Company will also play a huge part in being able to go above and beyond our previous successes. Also, we no longer live in an age when we can do everything on our own.

It is in this context that the three companies, each with its own unique characteristics (COMSYS, Sanwa ELEC Co. Ltd., and TOSYS Corporation) are merging our operations so that together we may look ahead to further growth as we adapt swiftly to the challenges of today's business environment.

I would like to take a moment here to address the arrest of an employee at our Kyushu office—who was dismissed from the company after the arrest—on bribery charges in connection with bidding for a construction project, and the accompanying 30-day freeze on business in the Kyushu and Okinawa regions imposed on the Company in May 2003 by the Ministry of Land, Infrastructure and Transport. I would like to extend my sincere apologies to our shareholders for the concern this incident must have caused. I will work with the entire company to ensure that this type of incident never happens again, and will also make sure that our compliance structure is further strengthened.

### Eleven Years of Growth (¥ Billions)




### Corporate Governance: Basic Approach and Status of Implementation

*Amid demands for transparent management and enhanced corporate governance, COMSYS recognizes that developing and maintaining an organizational structure and crisis management system capable of responding swiftly to the rapidly changing business environment is a critical management issue. To this end, in an effort to strengthen its compliance system, COMSYS established a Compliance Promotion Office in October 2002, held regular meetings of the Compliance Committee, and prepared a new, easily understandable Compliance Manual. The Company also provided training to its entire staff in order to improve each and every employee's awareness of the importance of compliance.*

*Additionally, the COMSYS Group Management Committee met regularly with a view to improving management and enhancing business performance at all COMSYS Group companies, and the Group Companies' Presidents Meeting and Affiliated Companies' Business Plan Meeting both convened twice during the year in an effort to enhance corporate governance.*



## *Please tell me about the recently formulated New Medium-Term Management Plan to begin during the fiscal year ending March 31, 2004.*

We live in an age when we don't know what lies ahead. Because it is a time when we are required to respond to change, and with great speed, we have adapted the conventional five-year plan to a three-year plan.

The seriousness of the deflation in the Japanese economy is intensifying, and for the time being we continue to face a situation in which there are no prospects of an economic recovery. Despite this, however, it is my belief that the telecommunications market is a dynamic market and one in which there is plenty of unfulfilled potential. More specifically, there is potential for: (1) increased use of information technology in public and social systems arising from the government's e-Japan Strategy; (2) establishment of a connection environment resulting from the "Hikari—Vision for a New Century" three-year plan of the NTT Group in which "optical" or "photonic" connection becomes the norm; (3) the widespread adoption in the mobile communications field of next-generation mobile phones and wireless LAN; and (4) the establishment of a ubiquitous communications environment in enterprise networks by means of broadband and the rapid adoption of IP networks such as "IP-VPN (virtual private network)", "wide area networks" and "IP telephones."

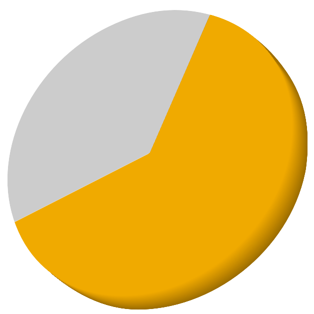
In this way, a paradigm shift is taking place within the telecommunications market, and our response to this is a most pressing issue. It is for this reason that we have formulated a new medium-term management plan by adapting the conventional five-year plan to a three-year plan. That is to say, the general market itself, in the future, will be the IT market, and construction work will arise from within the parameters of solutions work. Consequently, it is necessary to shift the mainstay of the Company's business, which has tended in the past to focus on the business of building infrastructure, to a solutions-oriented business that incorporates all aspects of the field—from telecommunication network consulting to design, management and maintenance. This is the key to becoming a comprehensive engineering services firm. The goals contained in this plan are as follows:

1. Aim for growth that exceeds market levels so that within the three-year period, the IT business will grow to make up more than 40% of our total sales;
2. Undertake business restructuring and improve the Company's organization in order to retain orders and reduce costs;
3. Train and retain skilled personnel and implement human resource management with a focus on younger people that selects and appoints people with appropriate skills to appropriate positions;
4. Establish COMSYS branded products;
5. Promote M&A and alliances as a means of complementing our technological capabilities.

### Sources of Construction Contracts

**63%** NTT

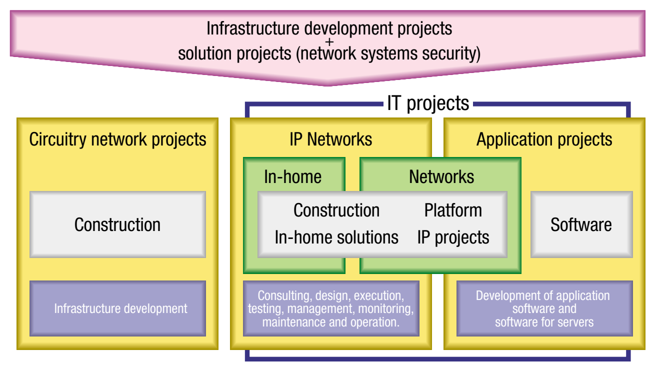
37% Non-NTT



### Medium-Term Management Plan

***Vision for Corporate Structure***

*While maintaining our existing core business as a comprehensive engineering services firm, we are undertaking a paradigm shift to transform ourselves into a comprehensive engineering services firm. This will enable us to better serve our customers with the products and services that they need by allowing us to coordinate all aspects of a project: consulting, design, execution, testing, management, operation, and maintenance.*



## *COMSYS is planning to merge its operations with Sanwa ELEC Co. Ltd., and TOSYS Corporation. What are your thoughts on this, including measures taken in response to today's market, where a paradigm shift is taking place?*

I believe that we ourselves must change in order to respond to the market's paradigm shift, and the most important thing here is an awareness among our employees of the new environment. In addition to this, changing the shape of the Company will also bring huge benefits. I believe that fast-paced management featuring quick decisions on selection and concentration of resources is also important.

It is for these reasons that COMSYS, Sanwa ELEC Co. Ltd., and TOSYS Corporation have chosen to merge their operations. By merging our operations, the customer bases, regional bases and first-rate technological capabilities of the three companies will mutually complement each other, marketing capability will be enhanced, and solutions businesses will be strengthened and expanded. On the basis of an integrated Group business strategy under a joint holding company, we will be able to select and concentrate on optimum businesses, implement the most efficient allocation of operational resources, and maximize the value of the firms in the Group.

Today, we are about to witness the shift to an IP/broadband society. As a leading firm in this industry, we have no time to waste in becoming a comprehensive engineering services firm befitting the IP/broadband era. Our goal is to become a highly productive company that is the most competitive in the industry, boasting a robust financial position that meets global standards, thanks to special management emphasis on consolidated results and cash flows.

## *Please tell me a little more about the aims of the merger of operations you have been talking about.*

As a result of the economic recession and price competitiveness, we cannot expect any near-term market growth in the NTT market or in other general markets. The way in which many companies are doing the same kind of work in the same kind of markets in the same way as they have for years has, I believe, an adverse effect on efficiency. I also think that expanding the range of one's business has its limitations as a response undertaken by a single company. It is for these reasons that we have decided to merge our operations.

COMSYS and Sanwa ELEC Co. Ltd., concluded a business alliance contract in 1999, and since this time we have been complementing each other's businesses and developing new business. COMSYS has also been collaborating with TOSYS Corporation, mainly in the Shin'etsu area, for some time. Because of the different specialist areas, customer bases and regional bases that the three companies have, merging our operations will easily produce valuable synergies. More specifically, COMSYS is engaged in the installation of communications equipment and IT related projects on a nationwide scale largely in connection with NTT and NTT DoCoMo, while Sanwa ELEC Co. Ltd., is selectively engaged in general electrical projects and private-sector projects mainly in the greater Tokyo metropolitan area. For its part, TOSYS Corporation is selectively engaged in NTT projects and private-sector projects, mainly in the Shin'etsu area.

By concentrating the operations resources of the three companies in each of our specialist areas, we will be able to strengthen competitiveness as a result of the efficient reallocation of operational resources, strengthen marketing as a result of the complementarities of the customer bases, regional bases and first-rate technological capabilities of the three companies, and strengthen and expand our solutions businesses. Also, we can expect cost reductions by sharing administration between the three companies, subsidiaries and affiliates, integrating in-house systems, shifting to outsourcing, joint purchasing of materials, and the integration and elimination of sales offices and project offices. Furthermore, the reorganization of subsidiaries and affiliates and the rationalization of construction works will become possible, producing an enormous synergistic effect.

## *Please tell me the reasons why you chose to merge operations through a joint holding company and not a direct merger of companies.*

Merging operations through a joint holding company is different from a merger in that the operating companies retain their own identities and autonomy, and a new and simple joint holding company is established through the transfer of shares. It is possible for operations to be merged swiftly since there are no accompanying changes such as those to the labor conditions of company employees. As an operating company, each subsidiary company works independently to reach their respective operations targets on the basis of an integrated group business strategy, and this in turn maximizes the value of the group's firms and maximizes share values. There are two main advantages gained from merging operations under a joint holding company. These are: (1) markets such as the customer bases and the regional bases of the three companies that will become subsidiaries can be used as they are; and (2) while following the operations policies of the holding company, the subsidiaries are able to undertake their own operational reforms independently.

Merging operations by establishing a joint holding company through the transfer of shares is a new method, and though I have talked mainly about its advantages, it is not comprised only of advantages. Merging operations through a new method has a component of trial and error, and the path ahead will be far from easy. However, change is important in a new era. As a result of this merger, I hope that the different cultures of the three companies will encounter one another, creating a new culture that enables us to become, before long, a firm befitting the upcoming IP/broadband era.

**Outline of the Holding Company**

| | |
|---|---|
| Trade Name: | COMSYS Holdings Corporation |
| Establishment: | September 29, 2003 |
| Address: | 17-1, Higashigotanda 2-chome Shinagawa-ku, Tokyo 141-8647, Japan |
| Representative: | Hirofumi Shimada, President |
| Paid-in Capital: | ¥10,000 million |
| Fiscal Year-End: | March 31 |
| Net Sales: | ¥274,800 million* |

*Net sales are the simple totals of the three companies' figures for the fiscal year ended March 2003.*

**Outline of Nippon COMSYS Corporation**
**(As of March 31, 2003)**

| | |
|---|---|
| Trade Name: | Nippon COMSYS Corporation |
| Establishment: | December 20, 1951 |
| Address: | 17-1, Higashigotanda 2-chome Shinagawa-ku, Tokyo 141-8647, Japan |
| Representative: | Hirofumi Shimada, President |
| Paid-in Capital: | ¥31,140 million |
| Net Sales: | ¥200,610 million |
| Net Income: | ¥2,468 million |

**Outline of SANWA ELEC Co., Ltd.**
**(As of March 31, 2003)**

| | |
|---|---|
| Trade Name: | SANWA ELEC Co., Ltd. |
| Establishment: | September 12, 1947 |
| Address: | 6-17, Aobadai 3-chome Meguro-ku, Tokyo 153-0042, Japan |
| Representative: | Chusei Sonta, President |
| Paid-in Capital: | ¥1,374 million |
| Net Sales: | ¥42,264 million |
| Net Income: | ¥131 million |

**Outline of TOSYS Corporation**
**(As of March 31, 2003)**

| | |
|---|---|
| Trade Name: | TOSYS Corporation |
| Establishment: | January 23, 1960 |
| Address: | 1108-5, Higashiyama Aza, Watauchi, Wakaho, Nagano, Nagano 381-0193, Japan |
| Representative: | Joichi Magara, President |
| Paid-in Capital: | ¥360 million |
| Net Sales: | ¥20,530 million |
| Net Income: | ¥193 million |

*(From left) SANWA ELEC President Chusei Sonta, Nippon COMSYS Chairman Hironobu Takeuchi, Nippon COMSYS President Hirofumi Shimada, TOSYS President Joichi Magara.*

## Corporate Citizenship

COMSYS is strongly conscious of its duty to the communities in which it operates. The Company engages in activities that promote environmental awareness, sponsors cultural events, and provides disaster-preparedness training.

In February 2000 COMSYS commenced inspection, analysis, and evaluation of every corner of the Company from an environmental perspective. It was necessary to create a new culture in which every employee became highly conscious of environmental problems, and committed to finding solutions. In May 2001, all of COMSYS's domestic operations received ISO 14001 certification. An Environmental Management System is in effect throughout the Company.

While offering our clients trusted, high-quality services, supported by strong technological capabilities, we are also protecting the environment, saving energy, and conserving materials. This not only strengthens our competitiveness, but supports the development of the 21st century's high-order, information-intensive society. We firmly believe that this will also help strengthen our business base.

COMSYS is also an active participant in the regional community. The Omiya Ardija soccer team, founded through joint participation by COMSYS, NTT, and 19 other companies closely associated with NTT, is active in the J2 soccer league. The Japan Professional Football League is composed of regional teams, and develops 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 wellbeing of the public in this way.

In another field, training courses for assistants who support people with visual and hearing challenges using personal computers were held in April 2003 at the COMSYS IT Plaza, located on the Kantonaka Branch premises. At the COMSYS IT Plaza, people can experience ADSL, ISDN and B-Flets, and personal computing classes are held regularly for members of the local community. Computers are a powerful communications tool, and a tool for obtaining information for people with visual and hearing challenges. However, the number of these people who make use of the Internet is extremely low compared to that for people without such challenges. Thus, the Company has planned and held training courses for personal computer assistants for people with visual and hearing challenges, so that as many people as possible will be able to enjoy the benefits of the IT society. It is our hope that those who complete the course will take on roles as assistants who support people with these challenges at various public or welfare facilities in the future.

COMSYS is proud to be able to contribute in all of these ways to the culture and society of our host regions. By doing so, we are able to give something in return to the communities that have made our existence and growth possible.

*COMSYS supports the J league soccer team, Omiya Ardija.*

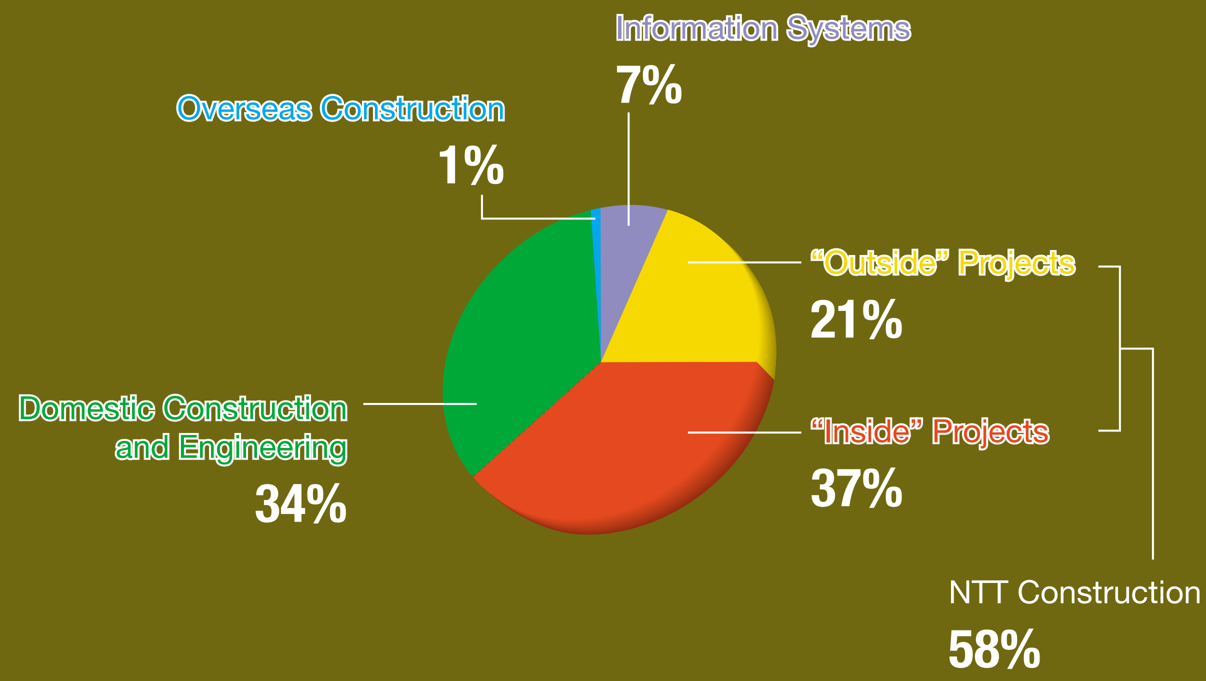
*In May 2001 COMSYS won ISO 14001 certification for all its domestic operations, demonstrating due concern with environmental protection.*


*The COMSYS IT Plaza*

*The training courses for personal computer assistants for people with visual and hearing challenges.*



## Review of Operations



# NTT Construction

COMSYS' largest customer, Nippon Telegraph and Telephone Corporation (NTT), is making a concerted effort to create new services. NTT recently announced its vision for the next generation, which calls for a transition from fixed telephone networks to internet protocol (IP) networks and the emergence of a ubiquitous broadband era over the next five years, through the use of optical fiber. Moreover, NTT is promoting the conversion of access networks to optical fiber in order to achieve fiber to the home (FTTH), and anticipates an expansion of relay switch facilities, including optical fiber, thanks to the rapid advance of broadband content. Concerning backbone networks for NTT DoCoMo, construction of 3.5-generation networks is expected to begin in 2005. Intensifying competition among telecommunications carriers, however, will result in high demand for reducing facilities construction costs as well as the need to further enhance cost competitiveness going forward.

Given these circumstances, among NTT "Outside" projects, B-Flet's installations and orders for the replacement of cable installations both increased, and among NTT "Inside" Projects, electrical power switching projects for ADSL facilities and orders for the replacement of electric generators increased. Nevertheless, due to the impact of NTT's curtailment of capital investment, net revenues in this sector declined by 14.1% year-on-year to ¥116,737 million (US$971 million).

In April 2003, COMSYS launched a new medium-term business plan, COMSYS21—Ver. II. Based on this plan, the Company aims to focus on IP network infrastructure for NTT and NTT DoCoMo, who are expected to implement an IP network business strategy in the near future, strengthen its sales capabilities in the areas of research and development and joint facilities, and train personnel in aspects of construction. At the same time, COMSYS hopes to secure orders for optical fiber access for FTTH construction and to maintain its construction capabilities in optical fiber and other junction switches. The NTT Construction Sector is making a concerted effort to increase revenues while working to improve safety and construction efficiency, develop and strengthen its outsourcing system, and train technical personnel.

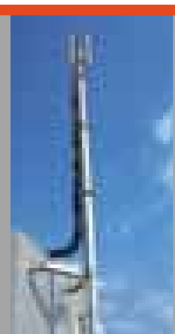
*Cable-Tunnel Construction Project (underground tunnel construction)*

*Cable Engineering Works Project (installation of communications cables)*

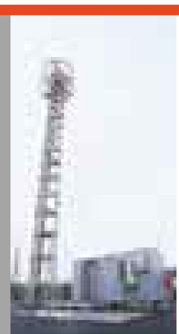
*Switching System and Transmission Equipment Projects*

*Electric Power Equipment Projects*

*A Steel Tower for a Mobile Telecommunications System*



*Antenna on a building roof for a mobile telecommunication system (in a city)*



*Base station for a mobile telecommunication system (in a suburb)*

## HIGHLIGHTS

### *Large Projects Vital to a New Mobile Era*

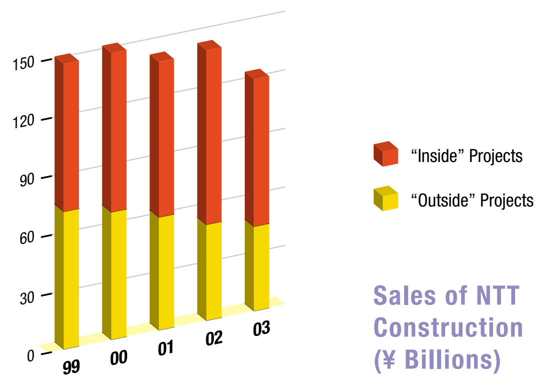
As a result of the merger of municipalities, Shizuoka City now occupies the largest area of any Japanese city. The NTT DoCoMo Tokai Shizuoka Building opened in February 2003 as the tallest building in Shizuoka Prefecture. This landmark represents a new mobile era for Shizuoka, and COMSYS was responsible for all contract construction work involving electrical power, transmission, wireless, and exchange facilities. COMSYS also assumed management of all works related to telecommunications construction in a joint venture. For exchange facility construction, the Company installed two mobile multimedia switches with FOMA capability. This construction of exchange facilities was on a large scale, and the construction schedule was challenging in light of the need to complete the facilities before the "Wakafuji Kokutai" national sports event to be held in September. COMSYS combines high quality technological capabilities with a wealth of experience to meet the expectations of its customers.

### *Achieving Results Overseas in Constructing Mobile Communications Base Stations*

Since 1996, this sector has been responsible for building several mobile communications base stations for international conferences, international mobile communications exhibitions, and other venues. In 2002, the sector built FOMA (DoCoMo's 3G services) installation of DoCoMo-extended base station in overseas in New York, USA and The Hague, in the Netherlands. The FOMA service is geared toward to the age of international communications, and COMSYS is involved at every step from consulting to testing.

Transplanting Japanese technology overseas is a difficult task owing to different standards and approaches to safety and quality. With the mission of bringing the technology and services of NTT DoCoMo to the world, the success of this project is an accolade for COMSYS.

**58%**
of Total Revenue




Sales of NTT Construction (¥ Billions)

# Domestic Construction and Engineering

The Domestic Construction and Engineering Sector handles all domestic telecommunications construction projects other than those for the NTT Group's communications infrastructure construction, as well as ordinary domestic and IT related 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 conduits), cable TV equipment, and network solutions.

In the business environment affecting the Domestic Construction and Engineering Sector, information communications networks are rapidly becoming more sophisticated and diverse, and various new information technologies (IT)—including IP virtual private networks (VPN), wide area ethernet, and wireless local access networks (LAN)—are quickly spreading throughout private companies and government institutions. Despite the deflationary economic environment, corporate willingness to invest in IT is quite high, especially in the manufacturing and distribution industries. Additionally, the Japanese government's e-Japan Priority Policy Program, which aims to transform Japanese society through IT, is driving the implementation of a large number of measures, including e-government and other efforts to computerize administrative activities, as well as the construction of an intelligent transportation system (ITS) infrastructure through public investment. Growth in IT is expected to continue over the long-term.

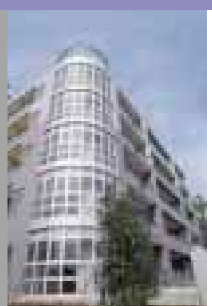
In this environment, COMSYS aggressively expanded sales activities in company-wide strategic businesses, notably the CC Box Business. The Company also re-categorized sales in the Solutions Business from the Information Systems Sector to the Domestic Construction and Engineering Sector starting in the current fiscal year (figures from the previous fiscal year were adjusted accordingly). Nevertheless, owing to the impact of a decline in public projects and other factors, net revenues in this sector declined by 13.0% year-on-year to ¥67,946 million (US$565 million).

The Domestic Construction and Engineering Sector plays a central role in the Company's new medium-term business plan, COMSYS21—Ver. II. In particular, COMSYS is focusing on the Maintenance Business, Terminal Business, and e-Japan Business. The Maintenance Business is actively involved in network monitoring, on-site maintenance, and other fields. The Terminal Business (home solutions) is promoting and improving systems for a wide range of home applications, from wiring work for installing information appliances to the construction of home LANs. In the e-Japan Business, though investment as part of the government's e-Japan Strategy in optical fiber and other infrastructure in major metropolitan areas has ended, investment in regional infrastructure is expected to pick up going forward. Moreover, the market for joint use outsourcing, where local governments team up to outsource development and operations to private companies, is expected to be large. COMSYS is focusing on local governments and is actively involved in regional development projects intended to upgrade information and communications infrastructure.

In the Architecture Business, COMSYS with continue to construct base stations for NTT DoCoMo. The Company is also actively pursuing construction orders with an emphasis on orders for electrical and communications facilities at large-scale buildings. Moreover, COMSYS is making aggressive efforts in the eco business, in fields such as the environment, resources, and energy that hold promise for future growth. The Domestic Construction and Engineering Sector will work to expand the scope of its business going forward.

*We are now constructing a wind power plant, and will in the future seek involvement in environmentally friendly projects.*

*The Mio Castello Kouhoku ILVIALE Condominiums, a COMSYS project*



*Communications facilities project for the new Runway B at Narita Airport.*

*Communications line project between the Takaido and Hachioji interchanges on the Chuo Expressway.*

## HIGHLIGHTS

### Telecom Construction Companies Participate in FIFA World Cup 2002

For the World Cup, COMSYS provided construction, maintenance, and removal services for the International Media Center, communications facilities at 11 venues accommodating 10 soccer fields nationwide, and hotel LANs for the Japan Organising Committee for the 2002 FIFA World Cup Korea/Japan. COMSYS also maintained communications equipment during World Cup matches and removed this equipment when the matches were over.

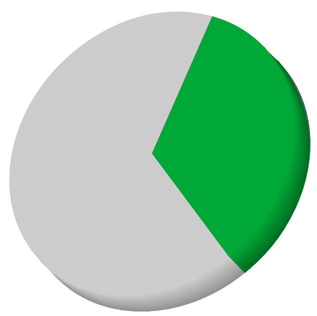
With such a major event, the scale of construction is complicated and far-reaching, and because coordinating construction is critically important, quick and sophisticated decision-making is required. The success of the Company's World Cup related projects can be attributed to COMSYS' specialized expertise in performing construction and maintenance on a national scale, and to its skill in quickly transferring and sharing information. COMSYS is proud that the success of these projects has served to enhance the Company's global image and further enhance its reputation in Japan.

### Solar Power System from COMSYS' Eco Business Achieves Results

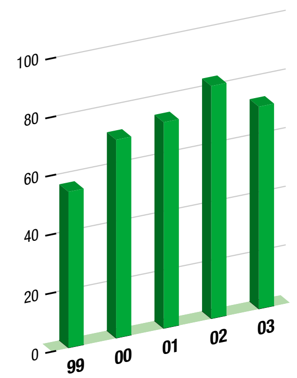
The town of Tahara in eastern Aichi Prefecture is known for its progressive ecological policies, and various buildings within the town have already installed solar and wind power systems. Tahara has a growing reputation as a nature-friendly, ecological town. The town is making steady progress in use of new energy sources, and the latest installation is a solar power system on the roof of the local government offices. COMSYS served as the principal contractor in this project, demonstrating that the Company is highly regarded for its reliable construction expertise in the new energy field. Groundbreaking took place in October 2002 and construction commenced in December. As Tahara is sandwiched between the Pacific Ocean and Mikawa Bay, full attention was given to the constantly gusting winds, and the job was completed successfully without incident.

A similar solar power system project was completed in July 2002 for SCS Co., Ltd. This order encompassed the entire process from the planning and proposal stages to the design and construction stages. SCS is located in Saitama Prefecture and is engaged in a wide range of cleaning operations on the front lines of environmental protection, including waste collection and drainpipe cleaning. SCS is focusing on efforts to be an "environmentally friendly business," and COMSYS is well respected for its value-added proposals, which appeal to an environmentally friendly corporate philosophy.

COMSYS established the Ecosystem Sales Group within its headquarters in order to focus on eco businesses such as wind and solar power. Going forward, the group plans to step up sales activities to private businesses and local government authorities.



34%
of Total Revenue




Sales of Domestic Construction and Engineering (¥ Billions)

# International Operations

Since COMSYS was founded, the Company has contributed to development in a number of countries in Asia, Africa, the Middle East, South America, and other areas attempting to develop needed telecom infrastructure. Over the course of these myriad projects, and from its participation in the domestic telecommunications market and construction projects, COMSYS has developed a wealth of experience and technological expertise. This, in turn, has facilitated the Company's access to these competitive overseas markets.

The global business environment is characterized by restricted or frozen IT investment by telecommunications carriers in all countries as a result of the global economic downturn and collapse of the IT boom. Moreover, shakeout and consolidation among telecommunications carries is accelerating on a global scale, as typified by the bankruptcies of Global Crossing and WorldCom in the US.

However, there are many countries and regions, especially in developing parts of the world, where the communications networks that provide social infrastructure are still undeveloped, and capital investment is expected to resume in these countries as soon as their economies bounce back. With a view to reducing the digital divide, there is evident progress in developing information and communications networks to serve as infrastructure, in building IP backbone networks, and in providing applications for e-government as well as remote health care, education, and disaster prevention networks.

During the current fiscal year, due partly to a decline in orders for projects in the Philippines and elsewhere, net revenues in the Overseas Construction Sector declined by 25.4% year-on-year to ¥1,864 million (US$16 million).

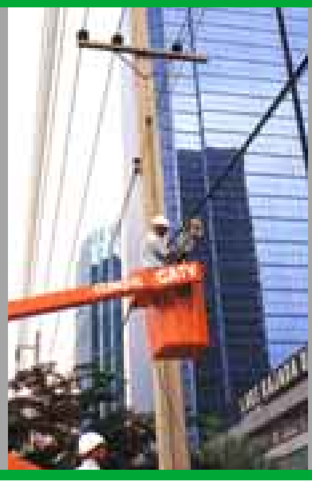
COMSYS, as part of the basic strategy in its new medium-term business plan, COMSYS21—Ver. II, is working to expand its overseas business, especially in Southeast Asia. Specific actions include the following:

- Expand business in Southeast Asia, mainly through COMSYS' local Thai subsidiary, COMSYS Thailand Co., Ltd. (CTC).
- Closely monitor project trends in other regions, and respond as needed.
- Pursue sales, in conjunction with domestic business sectors, to foreign-affiliated clients and the overseas operations of domestic clients.

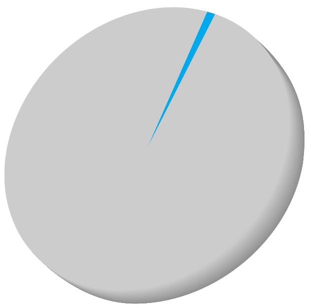
As the International Operations Sector is involved mainly in overseas operations, based on the needs of each business sector, it gathers and analyzes leading-edge technologies, mainly IT, and new business models from overseas. These efforts will be reflected in COMSYS' business strategy and operations.

*Installing underground cables in Bangkok.*

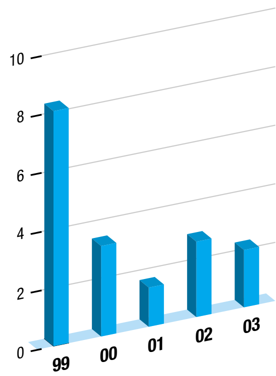
*Installing aerial optical fiber cables in Bangkok.*



*An outside plant project in Cebu, the Philippines' second most developed island after Luzon.*



**1%**
**of Total Revenue**




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

## Construction Revenues for Last Three Years


## 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 and TT&T |
| **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) |
| **Philippines** | Supply contract for OSP & optical fiber cable (BAYANTEL 40K) |
| **Philippines** | Turnkey backhaul fiber optic network construction for DCI in Philippines |
| **Thailand** | 100,000 Telephone Line Expansion Project in the North-East, North, South and Central Regions for TOT |

## Overseas Projects in Progress (As of June 2003)

| | |
|---|---|
| **Philippines** | Supply and installation of local cable and junction network for GLOBE Telecom PHASE-4 in Manila and the provinces |
| **Thailand** | Optic Fiber Transmission Network Expansion Project for TOT |

# Information Systems

COMSYS is engaged in the development of commercial systems, and has built a strong track record through the development of many business applications, networks, and database solutions. The Company has also developed many applications and control systems for various types of infrastructure for the NTT Group and other telecommunications firms, offering total solutions service packages encompassing everything from design to maintenance and administration. In fiscal 2001, the company launched its highly lauded service, which provides LAN and WAN construction support to small office, home office (SOHO) operators, Internet service providers, and small and medium-sized businesses using the Internet.

Other information systems businesses include the production of interactive programming for digital satellite broadcasts, which allow viewers to interact with broadcast stations. The Company will be watching the rapid progress of IT for opportunities to employ its high level of technological expertise in crafting proposals for new services.

The market environment affecting the Information Systems Sector is characterized by the rapidly progressing IT revolution and intensifying competition. The IT industry is expected to trigger a revitalization of the Japanese economy, supported by IT related policies initiated by the Japanese government, including the e-Japan Strategy and IT investment tax cuts. Moreover, with the penetration of home networks which provide the needed infrastructure, activity is expected to pick up in the area of comprehensive home and community management systems encompassing information services, home health care, nursing care, education, energy conservation, and so forth.

In this environment, the Information Systems Sector sought to expand orders through wide-reaching and aggressive sales initiatives in the area of software development and other information processing related business. However, due partly to intensifying competition in the information processing market and partly to the transfer of the Solutions Business from the Information Systems Sector to the Domestic Construction and Engineering Sector during the current fiscal year, net revenues declined by 4.8% year-on-year to ¥14,063 million (US$117 million).

In order for COMSYS to achieve a "paradigm shift to become a total engineering services company," as outlined in its new medium-term business plan, COMSYS21—Ver. II, the Company aims to deliver high value-added solutions services, shift from contract software development to systems integration, and participate in upstream processes. It is also working to strengthen its information business by training engineers and developing an organization capable of providing integrated network, software, and hardware solutions. Going forward, given the increasingly competitive economic environment, COMSYS hopes to differentiate itself from other companies and gain a competitive advantage by moving forward aggressively in developing COMSYS brand products.

## HIGHLIGHTS

### *Developing an Integrated Management Support System*

COMSYS is providing support for the building of an integrated management support system to T.I.C-Citizen Co., Ltd. (Tokyo), which has a long history in the areas of measurement systems for sports competitions, display equipment, and so forth. The relationship between T.I.C-Citizen and COMSYS dates back 12 years, when, early in the 1990s, the two companies introduced an advanced menu input system capable of real-time processing. Since then, T.I.C.-Citizen has continued to draw on COMSYS' high-level planning and proposal capabilities in a wide range of projects, including the development of accounting systems and sales support systems.

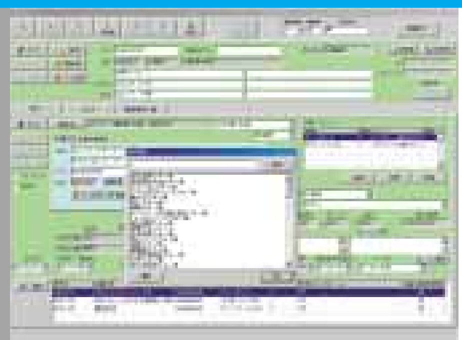
As part of the current implementation of a new third-generation production system, due to its regard for the high quality of COMSYS' system design capabilities, T.I.C.-Citizen has entrusted the coordination of PBX and LAN construction entirely to COMSYS. Moreover, in pursuing efficient and trouble-free management systems, because integrated real-time management on an open network is essential, efforts are underway to build a management support system that integrates production management, accounting, sales support, and CAD systems.

### *Digital Content Production: "Great Skill of the World"*

Since the launch of BS digital broadcasting in Japan in December 2000, COMSYS has been involved in producing the data-broadcasting portion of certain program content. The Digital Content Group in the IT Business Division, which employs leading digital broadcasting engineers, was involved in the production of the digital high vision program, "Great Skill of the World." This variety program featured interactive broadcasting—only possible with digital broadcasting—to enable audiences to participate in quizzes. COMSYS' unsurpassed technological capabilities contributed significantly to this interactive entertainment program.

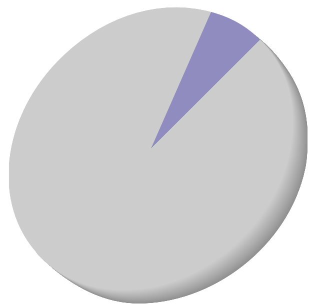
*COMSYS personnel preview a satellite-broadcast program with the clients who ordered it.*

*COMSYS has developed many custom software packages for its clients.*

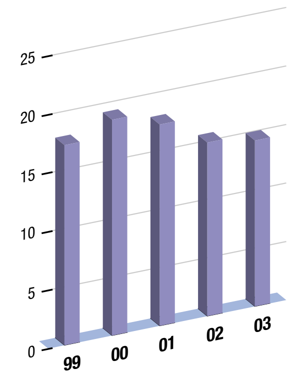


*Our BtoE System automatic wage-debit software allows a company to set up intranet shopping for its employees, then to automatically deduct the amount of each employee's purchases from his salary. Comsys is directing much of its energy toward making a place for itself in the field of e-commerce.*

*A screen shot from one of the Company's digital satellite broadcast programs.*



**7%**
**of Total Revenue**




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

# Research & Development

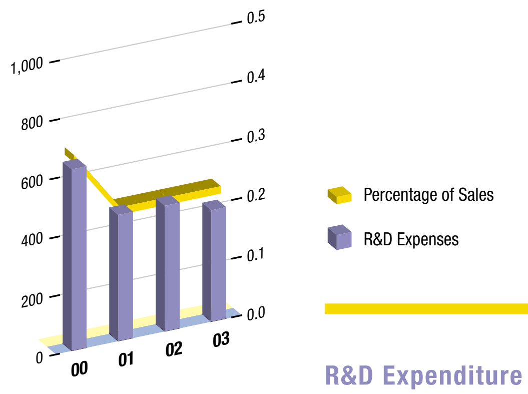
The information and communications market is expected to expand further as a result of the IT revolution, as represented by the rapid spread of the internet and increase in e-commerce. COMSYS is rapidly making the transition from the era of the fixed-line to the age of IP and broadband, buoyed by strong research and development targeting enhanced safety and efficiency in electrical and telecommunications facilities construction—the main business involved in meeting the needs of the new age. The Company is also pursuing R&D focused on new technologies that will be useful in market creation strategies and systems development related to management streamlining.

R&D expenses stood at ¥369 million (US$3 million) during the current fiscal year. COMSYS' research and development organization consists of 28 researchers at the Company's Technology Research and Development Center.

**R&D Strategy in the New Medium-Term Business Plan, COMSYS21—Ver. II**

With an accurate understanding of trends in new technology and society, including the "new, optical generation," COMSYS is pressing forward with R&D aimed at creating COMSYS brand products, systems, and services. At the same time, in order to maintain and enhance the confidence COMSYS has won among the public as a leading company, the Company is pursuing R&D targeting the delivery of ultra safe and secure products, systems, and services. For COMSYS, this R&D strategy makes an essential contribution in many areas: sales proposals, increasing orders, eliminating accidents, and increasing customer confidence.

In choosing new development themes, COMSYS effectively focuses R&D resources on work directly linked to cutting-edge businesses. The Company is working to increase R&D productivity by actively pursuing joint products among its business divisions and joint R&D contract work in partnership with manufacturers and universities.




**R&D Expenditure and as Percentage of Sales (¥ Millions, %)**

**COMSYS is proud of its R&D accomplishments in fiscal 2003, which are outlined below.**

**1) R&D for technology to improve construction efficiency**

- Sewerage FTTH construction technology
- Development of aerial cable bundling construction methods
- Development of mobile construction knowledge management systems

**2) R&D for technology to improve construction safety and quality**

- Development of metal tools for removing telephone polls
- Development of tools to pull optical drop cables tight
- Development of methods to reduce grounding resistance in mountainous areas

**3) R&D for new technology and systems**

- Construction of security systems verification equipment
- Development of automatic incoming and outgoing signal testing equipment employing FOMA
- IPv6 test network construction and VoIP verification
- Applications of IC chips in the construction field
- Research related to digital content and security

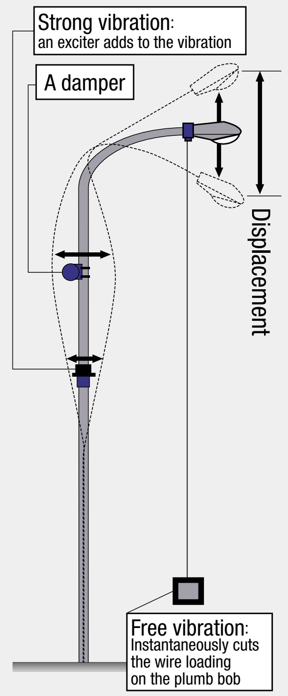
COMSYS' subsidiaries are not engaged in any particular research and development activities.

## HIGHLIGHTS

### *Tuned Rotary-Mass Damper*

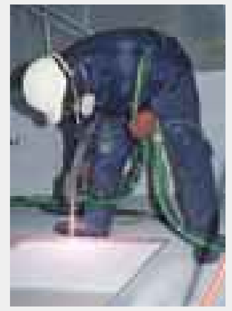
COMSYS began developing a tuned rotary-mass damper together with university researchers in 1999. The Company exhibited one at the Highway Maintenance Show held at the Tokyo Big Site on November 27, 2002.

Tuned rotary-mass dampers can be installed in buildings, bridges, and towers to reduce vibration caused by earthquakes, strong winds, and other factors. This simple yet revolutionary system uses a rotating cylindrical weight within another cylinder to absorb vibration energy. The new system is low-cost and maintenance free, and because operational testing on expressway lighting has already been completed, the Company is currently receiving a large number of inquiries with a view to installation.




### *"Meta Arc Method"—The Latest in Thermal Spraying Technology*

Thermal spraying is a technology used to form a coating by spraying atomized metal onto steel. COMSYS's new rust protection method, known as the Meta Arc Method, has caught the attention of the civil engineering industry as an effective technology for preventing structural corrosion. The Meta Arc Method represents an innovative coating technology that is ideal for preventing rust and corrosion on bridges and other large structures. The technology can prevent iron from rusting for more than 30 years by applying an inorganic sealer called NeoSeal through electric arc spraying. Using an inorganic, solventless product also helps reduce environmental impact. COMSYS independently established and is working to expand the Arc Thermal Method Association with the aim of creating new technology in this field. As evidenced by the decision to use the Meta Arc Method in the Chubu International Airport construction project, COMSYS' new technologies are attracting much attention.



### *Construction Sludge Solidification System*

COMSYS began developing the construction sludge solidification system in 1996, and completed the initial system in 1998. Subsequent improvements gave rise to the current system. This innovative construction sludge solidification system is able to improve ordinary soil by processing sludge removed through pipe jacking or other methods as general surplus soil.

In the conventional ACE mole method and non-open cut pipe-jacking method, the cut dirt and sand is mixed with wastewater and removed by pressure through a pipe. Sludge that is removed must legally be classified as industrial waste, and processing costs are extremely high. COMSYS' new system lowers processing costs by enabling sludge to be processed as general surplus soil. This feature is attracting widespread attention.

*Presentation made at the 37th Japan National Conference on Geotechnical Engineering*

# Management

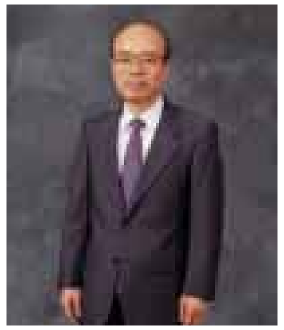
As of June 27, 2003

## BOARD OF DIRECTORS

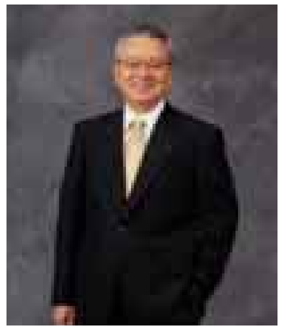
*Chairman and Representative Director*
Hironobu Takeuchi

*President and Representative Director*
Hirofumi Shimada

*Senior Managing Director*
Masahide Kajiyama



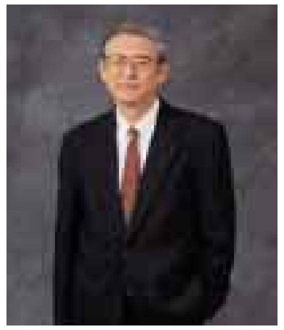
*Managing Director*
Yoichi Chiba



*Managing Director*
Kaoru Noda

*Managing Director*
Kenji Kondo

*Managing Director*
Toyohiro Goto



*Director*
Yoshiaki Miyawaki

## CORPORATED AUDITORS

*Standing Auditors*
Teruji Mukai
Takero Mizoguchi

*Auditors*
Takashi Kakimi
Tadashi Kumakura

## CORPORATED EXECUTIVE OFFICERS

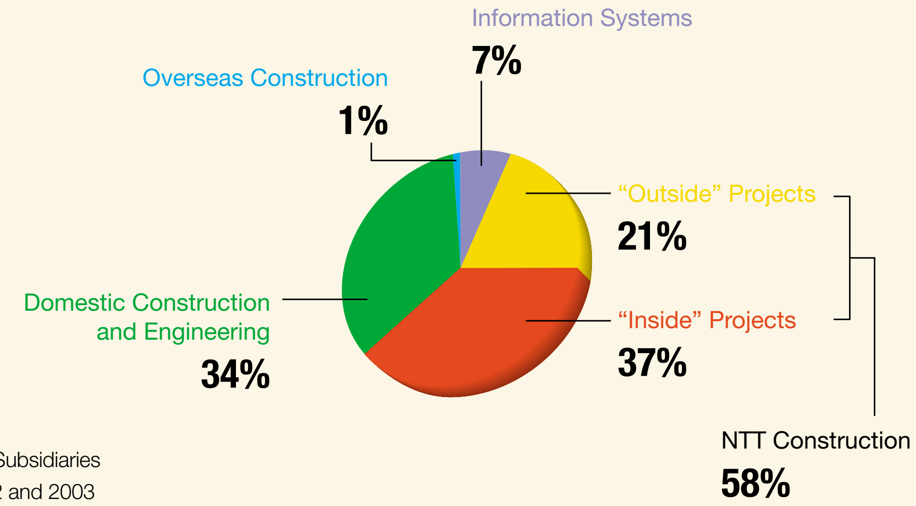
*Senior Vice Presidents*
Kyoichi Suzuki
Yoshihiro Yoshioka
Etsuo Shibata
Yukuo Asakura
Minoru Sobami

*Executive Officers*
Yasuhiko Kubota
Akira Takasaki
Kazuo Takiguchi
Toshimasa Hattori
Takashi Furusho
Hideki Ishikawa
Seiichiro Nakatani
Akiyoshi Sekiguchi
Shuichi Tominaga
Akinori Ishigaki
Tamio Maeshige
Masaki Nakayama
Yuji Inada
Tadao Koyama
Masato Shimohara
Junichi Tamura
Yoshiaki Aigami
Yoshihiro Mimata



# Financial Section

# Financial Review



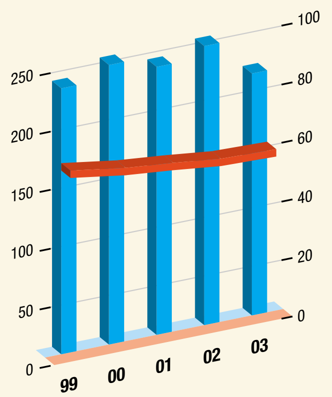

### Sales by Business Category

Nippon COMSYS Corporation and Consolidated Subsidiaries
Years ended 31st March, 1999, 2000, 2001, 2002 and 2003

| | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | **2003** | **2003** |
| **Construction Business** | | | | | | |
| NTT Construction | ¥143,705 | ¥144,296 | ¥134,981 | ¥135,964 | **¥116,737** | **$ 971,190** |
| Domestic Construction and Engineering | 52,412 | 66,567 | 69,219 | 78,111 | **67,946** | **565,275** |
| Overseas Construction | 7,850 | 3,007 | 1,315 | 2,500 | **1,864** | **15,507** |
| **Other Business** | | | | | | |
| Information Systems | 16,555 | 17,880 | 16,705 | 14,776 | **14,063** | **116,996** |
| Total | ¥220,522 | ¥231,750 | ¥222,220 | ¥231,351 | **¥200,610** | **$1,668,968** |

*Note: 1. For convenience only, the accompanying Japanese yen figures for 2003 have been translated into U.S. dollars at the rate of ¥120.20 to $1, the rate prevailing on 31st March, 2003.*

*2. Mainly construction related business in the Information System Sector has been re-categorized under the Domestic Construction and Engineering Sector. The related figures for the previous year (ended 31st March, 2002) have been adjusted to reflect the new categorization.*




### Proportion of Revenues from NTT Market (¥ Billions, %)

## Revenues

During the fiscal year ended March 31, 2003, despite strenuous efforts to enhance orders from the NTT Group, from the public sector including government organizations, and from NCC-related or other general customers, net sales decreased 13.3% to ¥200,610 million (US$1,669 million). This was mainly due to restrained capital investments by telecommunications companies such as the NTT Group, and the effect of restraint in IT investment among private enterprises in general.

Net revenues in the NTT Construction Sector decreased 14.1% to ¥116,737 million (US$971 million). "Outside" projects accounted for ¥42,536 million (US$354 million) of the sector's total, while "inside" projects accounted for the remaining ¥74,201 million (US$617 million). Net revenues in the Domestic Construction and Engineering Sector also decreased 13.0% to ¥67,946 million (US$565 million). Net revenues in the Overseas Construction Sector, which showed signs of recovery in the previous term, fell 25.4% to ¥1,864 million (US$16 million), affected by the instability in economies around the world. Net revenues in the Information Systems Sector declined 4.8% to ¥14,063 million (US$117 million). The re-categorization of sales of mainly construction related business in the Information System Sector to the Domestic Construction and Engineering Sector has been made in the current fiscal year. The figures for the Domestic Construction and Engineering Sector and Information System Sector in the financial statements of the previous fiscal year have been recalculated for this report in accordance with the new business categorization of the current fiscal year.

## Results of Operations

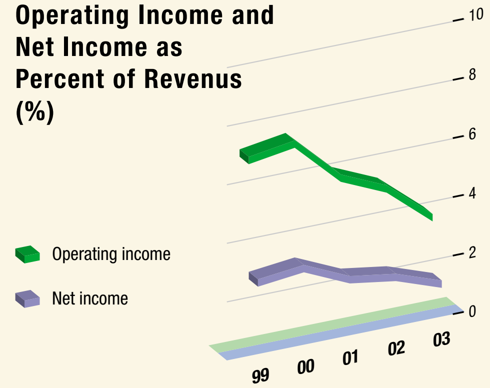
Cost of sales for the fiscal year ended March 31, 2003 decreased by ¥25,470 million, or 12.5%, to ¥178,619 million (US$1,486 million), but increased as a percentage of sales from 88.2% in the prior term to 89.0% in this term. Gross profit slipped 19.3% to ¥21,991 million (US$183 million). Selling, general, and administrative expenses decreased by 7.5% to ¥15,501 million (US$129 million), but grew as a percentage of gross profit from 61.5% last term to 70.5%. The ratio of selling, general, and administrative expenses to sales increased from 7.2% in the previous term to 7.7% this term. These factors drove operating income down by 38.2%, to ¥6,490 million (US$54 million). The operating margin also decreased from 4.5% to 3.2%. Interest and dividend income fell 28.4% to ¥207 million (US$2 million). Interest expenses fell 37.0% to ¥34 million (US$0.3 million). The net amount of other expenses fell 40.5% to ¥1,084 million (US$9 million). Contributing to this decline were extraordinary events such as a gain on reversal of the prior service cost of employee pension fund of ¥1,597 million (US$13 million), which offset expenses such as a special charge of ¥1,234 million (US$10 million) for employee retirement benefits used to assist employees seeking other employment and a loss on liquidation of subsidiaries and affiliates of ¥490 million (US$4 million). Income before income taxes and other adjustments to net income decreased 37.4% by ¥5,579 million (US$46 million).

Income taxes for the fiscal year ended March 31, 2003 decreased by ¥1,500 million, or 35.5%, to ¥2,728 million (US$23 million), and the ratio of income taxes to income before income taxes (the effective tax ratio) increased from 47.4% to 48.9%. Minority interests fell sharply by 33.7% to ¥383 million (US$3 million). Net income, as a result of the foregoing, decreased 39.9% to ¥2,468 million (US$21 million). The ratio of net income to net sales declined from 1.8% in the prior term to 1.2%, and return on equity slid to 2.2%. Basic net income per share was ¥18.34 (US$0.15), but diluted net income per share is not reported, as there were no residual securities outstanding at the end of this term. The New Accounting Standard is applied in calculation of basic net income per share. Further details related to this are shown in Note2 (k) to the Consolidated Financial Statements. Dividends of ¥12.00 (US$0.10) were declared.

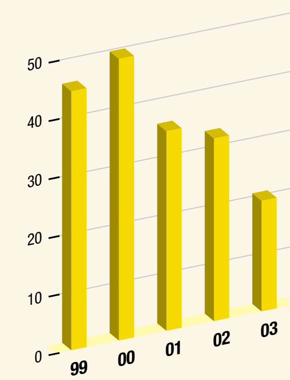
## Financial Position

Cash and cash equivalents significantly decreased by 41.0% to ¥25,411 million (US$211 million), while short-term investments were reduced by

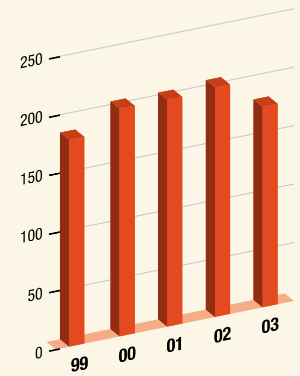
### Operating Income and Net Income as Percent of Revenus (%)




### Net Income per Share (¥)




### Total Assets (¥ Billions)

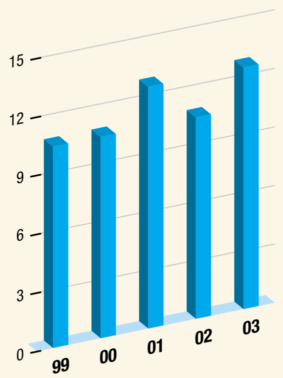


**Shareholders' Equity and Return on Equity (¥ Billions, %)**

Shareholder' equity

ROE


**Dividents per Share (¥)**




73.8% to ¥297 million (US$2 million). Notes and accounts receivable were down 9.2% to ¥58,899 million (US$490 million). The accumulated cost of construction in progress increased 3.2% to ¥16,845 million (US$140 million). Deferred income taxes were decreased from ¥1,542 million in the previous fiscal year to ¥830 (US$7 million). Other current assets rose 60.5% to ¥4,733 million (US$39 million). Thus, total current assets shrank by 17.1% to ¥108,053 million (US$899 million).

Reviewing liabilities, short-term bank loans, which more than doubled in the previous term, declined drastically by 95.8% to ¥145 million (US$1 million). There is no outstanding balance of convertible bonds redeemable within a year, in contrast to ¥9,312 million posted in the previous term. Trade payables decreased 14.4% to ¥31,344 million (US$261 million), while advances received on construction in progress fell 8.8% to ¥3,945 million (US$33 million). Other current liabilities declined 8.8% to ¥4,769 million (US$40 million), resulting in a current ratio of 2.7.

Investments and other assets slipped by 10.7% to ¥18,791 million (US$156 million), primarily as a result of reductions in deferred income taxes. Total property and equipment increased 1.3% to ¥39,684 million (US$330 million) after depreciation. As a result of the above, total assets shrank by 12.6% to ¥166,528 million (US$1,385 million). Shareholders' equity contracted by 0.2% to ¥111,724 million (US$929 million).

The capital ratio went up from 58.7% in the previous term to 67.1%. Based on the number of shares outstanding at March 31, 2003, shareholders' equity per share increased to ¥851.20 (US$7.08) from the ¥835.04 recorded at the end of the previous fiscal year.

## Cash Flows

Net cash provided by operating activities decreased significantly by 78.9% to ¥2,441 million (US$20 million). Income before income taxes and other adjustments to net income slipped 37.4% to ¥5,579 million (US$46 million). There were negative factors such as increase of inventory assets including the increase of accumulated cost of construction in progress for ¥349 million (US$3 million), and reduction of trade payables for ¥5,663 million (US$47 million), although there were some positive factors such as reduction of trade receivables for ¥6,191 (US$52 million). In addition to the above, cash and cash equivalents paid for income taxes more than doubled to ¥6,145 million (US$51 million).

Net cash used in investing activities was ¥4,328 million (US$36 million). The main items of payment were for the purpose of acquisition of tangible fixed assets of ¥2,581 million (US$21 million) and an increase in long-term loans of ¥2,041 million (US$17 million).

Net cash used in financing activities was ¥15,738 million (US$131 million), primarily used for redemption of convertible bonds in the amount of ¥9,312 million (US$77 million), and repayment of short-term borrowings of ¥3,037 million (US$25 million).

The above resulted in a net decrease in cash and cash equivalents of ¥17,625 million (US$146 million) in comparison with the previous term. Cash and cash equivalents at the beginning of the fiscal year were ¥43,036 million (US$358 million). Cash and cash equivalents at the end of the fiscal year were ¥25,411 million (US$211 million).



# Selected Financial and Operating Data

Nippon COMSYS Corporation and Consolidated Subsidiaries
Years ended 31st March, 1999, 2000, 2001, 2002 and 2003

| | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 |
| **Results of Operations:** | | | | | | |
| Net sales | ¥220,522 | ¥231,750 | ¥222,220 | ¥231,351 | ¥200,610 | $1,668,968 |
| Operating income | 14,261 | 15,559 | 11,628 | 10,500 | 6,490 | 53,993 |
| Income before income taxes and other adjustments to net income | 13,522 | 13,054 | 9,117 | 8,913 | 5,579 | 46,414 |
| Net income | 5,625 | 6,315 | 4,498 | 4,107 | 2,468 | 20,532 |
| **Financial Position:** | | | | | | |
| Total assets | ¥171,669 | ¥188,961 | ¥188,250 | ¥190,576 | ¥166,528 | $1,385,424 |
| Property and equipment | 30,976 | 38,626 | 38,606 | 39,178 | 39,684 | 330,150 |
| Long-term debt | 9,409 | 9,312 | 9,312 | — | — | — |
| Shareholders' equity | 101,721 | 115,834 | 118,055 | 111,919 | 111,724 | 929,484 |
| **Per Share of Common Stock (in yen and U.S. dollars):** | | | | | | |
| Net income | | | | | | |
| — Basic | ¥ 42.97 | ¥ 46.73 | ¥ 33.11 | ¥ 30.29 | ¥ 18.34 | $ 0.15 |
| — Diluted | 40.87 | 44.67 | 31.70 | 29.01 | — | — |
| Cash dividends | 10.00 | 10.00 | 12.00 | 10.00 | 12.00 | 0.10 |
| Shareholders' equity | 765.74 | 851.01 | 869.84 | 835.04 | 851.20 | 7.08 |
| **Financial Ratios:** | | | | | | |
| Operating income to net sales | 6.47% | 6.71% | 5.23% | 4.54% | 3.24% | |
| Net income to net sales | 2.55 | 2.72 | 2.02 | 1.78 | 1.23 | |
| Capital ratio | 59.3 | 61.3 | 62.7 | 58.7 | 67.1 | |
| Return on equity | 5.7 | 5.8 | 3.8 | 3.6 | 2.2 | |
| **Other Statistics:** | | | | | | |
| New orders received during the year | ¥229,875 | ¥228,518 | ¥229,211 | ¥213,986 | ¥199,495 | $1,659,692 |
| Contract backlog at end of the year | 78,348 | 76,781 | 80,461 | 64,288 | 63,173 | 525,566 |
| Common stock price range (in yen): | | | | | | |
| High | ¥ 1,710 | ¥ 2,700 | ¥ 2,370 | ¥ 2,095 | ¥ 891 | |
| Low | 1,280 | 1,420 | 1,636 | 580 | 354 | |

*Note: 1. For convenience only, the accompanying Japanese yen figures for 2003 have been translated into U.S. dollars at the rate of ¥120.20 to $1, the rate prevailing on 31st March, 2003.*
*2. Net income per share of commom stock for the year ended 31st March, 2002 have been adjusted to conform with the method required by the GAAP of Japan for computing these figures for the year ended 31st March, 2003.*

# Consolidated Balance Sheets

Nippon COMSYS Corporation and Consolidated Subsidiaries
As of 31st March, 2002 and 2003

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| **ASSETS** | 2002 | 2003 | 2003 |
| **Current Assets:** | | | |
| Cash and cash equivalents | ¥ 43,036 | ¥ 25,411 | $ 211,406 |
| Short-term investments (Note 3) | 1,132 | 297 | 2,471 |
| Notes and accounts receivable—trade | 64,888 | 58,899 | 490,008 |
| Inventories: | | | |
| Accumulated cost of construction in progress | 16,328 | 16,845 | 140,141 |
| Other | 611 | 1,159 | 9,642 |
| Deferred income taxes (Note 7) | 1,542 | 830 | 6,905 |
| Other current assets | 2,948 | 4,733 | 39,377 |
| Less: Allowance for doubtful receivables | (127) | (121) | (1,007) |
| Total current assets | 130,358 | 108,053 | 898,943 |
| **Investments and Other Assets:** | | | |
| Investment securities: | | | |
| Unconsolidated subsidiaries and affiliates | 630 | 450 | 3,744 |
| Other (Note 3) | 4,806 | 4,904 | 40,799 |
| Long-term loans receivable | 3,716 | 3,413 | 28,394 |
| Deferred income taxes (Note 7) | 4,636 | 3,349 | 27,862 |
| Other assets | 8,599 | 8,330 | 69,301 |
| Less: Allowance for doubtful receivables | (1,347) | (1,655) | (13,769) |
| Total investments and other assets | 21,040 | 18,791 | 156,331 |
| **Property and Equipment:** | | | |
| Land (Note 4) | 18,629 | 19,884 | 165,424 |
| Buildings and structures (Note 4) | 23,713 | 23,857 | 198,478 |
| Machinery and equipment | 14,867 | 14,995 | 124,750 |
| Construction in progress | 0 | — | — |
| Less: Accumulated depreciation | (18,031) | (19,052) | (158,502) |
| Total property and equipment | 39,178 | 39,684 | 330,150 |
| | ¥190,576 | ¥166,528 | $1,385,424 |

*See Notes to the Consolidated Financial Statements.*

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | 2002 | 2003 | 2003 |
| **Current Liabilities:** | | | |
| Short-term bank loans (Note 4) | ¥ 3,457 | ¥ 145 | $ 1,206 |
| Current portion of convertible bonds (Note 4) | 9,312 | — | — |
| Accounts payable—Trade | 36,607 | 31,344 | 260,765 |
| Advances received on construction in progress | 4,327 | 3,945 | 32,820 |
| Income taxes payable | 3,538 | 277 | 2,305 |
| Other current liabilities | 5,230 | 4,769 | 39,676 |
| Total current liabilities | 62,471 | 40,480 | 336,772 |
| **Long-Term Liabilities:** | | | |
| Accrued severance indemnities (Note 5) | 3,640 | 2,194 | 18,253 |
| Allowance for losses arising from guarantees of loans | 1,680 | — | — |
| Deferred tax liabilities for unrealized gains on land revaluation (Note 11) | 2,484 | 2,366 | 19,684 |
| Consolidation adjustments account | — | 2,821 | 23,469 |
| Other long-term liabilities | 888 | 1,536 | 12,779 |
| Total long-term liabilities | 8,692 | 8,917 | 74,185 |
| **Minority Interests** | 7,494 | 5,407 | 44,983 |
| **Contingent Liabilities** (Note 6) | | | |
| **Shareholders' Equity** (Note 10): | | | |
| Common stock, par value ¥50 per share: | | | |
| Authorized | | | |
| — 247,763 thousand shares (31st March, 2002) | | | |
| — 246,953 thousand shares (31st March, 2003) | | | |
| Issued | | | |
| — 135,264 thousand shares (31st March, 2002) | 31,140 | — | — |
| — 134,454 thousand shares (31st March, 2003) | — | 31,140 | 259,068 |
| Additional paid-in capital | 30,736 | 30,736 | 255,707 |
| Retained earnings | 60,725 | 61,158 | 508,802 |
| Unrealized loss on land revaluation (Note 11) | (8,633) | (8,514) | (70,832) |
| Unrealized gain (loss) on securities | (172) | (205) | (1,705) |
| | 113,796 | 114,315 | 951,040 |
| Treasury stock, at cost | (1,877) | (2,591) | (21,556) |
| Total shareholders' equity | 111,919 | 111,724 | 929,484 |
| | ¥190,576 | ¥166,528 | $1,385,424 |

## Consolidated Statements of Income and Retained Earnings

Nippon COMSYS Corporation and Consolidated Subsidiaries
Years ended 31st March, 2002 and 2003

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| **Net Sales:** | | | |
| Construction contracts | ¥216,575 | ¥186,547 | $1,551,972 |
| Other | 14,776 | 14,063 | 116,996 |
| | 231,351 | 200,610 | 1,668,968 |
| **Cost of Sales:** | | | |
| Construction contracts | 190,924 | 167,034 | 1,389,634 |
| Other | 13,165 | 11,585 | 96,381 |
| | 204,089 | 178,619 | 1,486,015 |
| Gross profits | 27,262 | 21,991 | 182,953 |
| **Selling, General and Administrative Expenses** | 16,762 | 15,501 | 128,960 |
| Operating income | 10,500 | 6,490 | 53,993 |
| **Other Income (Expenses):** | | | |
| Interest and dividend income | 289 | 207 | 1,722 |
| Interest expenses | (54) | (34) | (283) |
| Other, net (Note 12) | (1,822) | (1,084) | (9,018) |
| | (1,587) | (911) | (7,579) |
| Income before income taxes and other adjustments to net income | 8,913 | 5,579 | 46,414 |
| **Income Taxes** (Note 7)**:** | | | |
| Current | 5,521 | 756 | 6,290 |
| Deferred | (1,293) | 1,972 | 16,406 |
| | 4,228 | 2,728 | 22,696 |
| **Minority Interests** | 578 | 383 | 3,186 |
| **Net Income** | 4,107 | 2,468 | 20,532 |
| **Retained Earnings:** | | | |
| Balance at beginning | 57,828 | 60,725 | 505,200 |
| Increases arising from newly consolidated subsidiaries, net | 2,205 | 14 | 116 |
| Appropriations: | | | |
| Cash dividends | 1,624 | 1,325 | 11,023 |
| Bonuses to directors | 107 | 47 | 391 |
| Retirement of treasury stocks | 1,684 | 677 | 5,632 |
| | 3,415 | 2,049 | 17,046 |
| Balance at end | ¥ 60,725 | ¥ 61,158 | $ 508,802 |
| | Yen | | U.S. dollars (Note 1) |
| **Per Share:** | | | |
| Net income | | | |
| — Basic | ¥ 30.29 | ¥ 18.34 | $ 0.15 |
| — Diluted | 29.01 | — | — |
| Cash dividends | 10.00 | 12.00 | 0.10 |
| Weighted average number of shares (in thousands) | 135,139 | 134,587 | |

*See Notes to the Consolidated Financial Statements.*



## Consolidated Statements of Cash Flows

Nippon COMSYS Corporation and Consolidated Subsidiaries
Years ended 31st March, 2002 and 2003

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| **Cash Flows from Operating Activities:** | | | |
| Income before income taxes and other adjustments to net income | ¥ 8,913 | ¥ 5,579 | $ 46,414 |
| Depreciation and amortization | 3,363 | 3,645 | 30,324 |
| Write-down of investments and other assets | 142 | 327 | 2,720 |
| Increase in allowance for doubtful receivables | 113 | 274 | 2,280 |
| Decrease in accrued severance indemnities | (267) | (1,580) | (13,145) |
| Increase in allowance for losses arising from guarantees of loans | 1,680 | — | — |
| Interest and dividends received | (289) | (207) | (1,722) |
| Interest expenses | 54 | 34 | 283 |
| Loss on disposal of property and equipment | 84 | 149 | 1,240 |
| Loss on liquidation of subsidiaries and affiliates | — | 490 | 4,077 |
| Decrease (increase) in receivables—trade | (1,583) | 6,191 | 51,506 |
| Decrease (increase) in inventories | 5,628 | (349) | (2,903) |
| Increase (decrease) in payables—trade | 173 | (5,663) | (47,113) |
| Decrease (increase) in other assets | (235) | 496 | 4,126 |
| Decrease in other liabilities | (3,416) | (1,242) | (10,333) |
| Directors' bonuses paid | (137) | (65) | (541) |
| Other, net | (113) | 340 | 2,829 |
| | 14,110 | 8,419 | 70,042 |
| Cash and cash equivalents received on interest and dividends income | 288 | 201 | 1,672 |
| Cash and cash equivalents paid for interest expenses | (54) | (34) | (283) |
| Cash and cash equivalents paid for income taxes | (2,762) | (6,145) | (51,123) |
| Net cash provided by operating activities | 11,582 | 2,441 | 20,308 |
| **Cash Flows from Investing Activities:** | | | |
| Decrease in short-term investments, net | 999 | 1,046 | 8,702 |
| Increase in investment securities, net | (678) | (772) | (6,423) |
| Increase in investments in a subsidiary to be consolidated | — | (233) | (1,938) |
| Acquisitions of property and equipment | (5,884) | (2,581) | (21,473) |
| Acquisitions of other assets | (485) | (452) | (3,760) |
| Proceeds from sale of property | 125 | 91 | 757 |
| Increase in long-term loans | (353) | (2,041) | (16,980) |
| Collection of long-term loans | 464 | 525 | 4,368 |
| Other | (88) | 89 | 740 |
| Net cash used in investing activities | (5,900) | (4,328) | (36,007) |
| **Cash Flows from Financing Activities:** | | | |
| (Decrease) increase in short-term borrowings, net | 183 | (3,037) | (25,266) |
| Repayment of long-term debt | (184) | (466) | (3,877) |
| Proceeds from long-term debt | 757 | 230 | 1,913 |
| Redemption of convertibles bonds | — | (9,312) | (77,471) |
| Acquisitions of treasury stock | (1,884) | (1,820) | (15,141) |
| Cash dividends paid | (1,638) | (1,333) | (11,090) |
| Net cash used in financing activities | (2,766) | (15,738) | (130,932) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 2,916 | (17,625) | (146,631) |
| **Cash and Cash Equivalents at Beginning of Year** | 39,473 | 43,036 | 358,037 |
| **Cash and Cash Equivalents at Beginning of Year Adjusted for Newly Consolidated Subsidiaries** | 647 | — | — |
| **Cash and Cash Equivalents at End of Year** | ¥43,036 | ¥25,411 | $211,406 |

*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 differ 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. Also, certain reclassifications and changes, if any, have been retrospectively made to the consolidated financial statements and their respective Notes, as of and for the year ended 31st March, 2002 so as to conform with those applied to the consolidated financial statements and their respective Notes, as of and for the year ended 31st March, 2003.

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 ¥120.20 to US$1. The presentation of such dollar amounts is solely for the convenience of the reader 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.

## 2. Summary of Significant Accounting Policies

### *(a) Principle of consolidation*

The consolidated financial statements as at, and for the years ended, 31st March, 2002 and 2003, include the accounts of the Company and 13 subsidiaries and an affiliate (see "Corporate Directory" at the last page of this annual report).

Effective as at 31st March, 2003, Chuo Denki Tsushin Kensetsu Co., Ltd. has been consolidated, since it has become a subsidiary of the Company due to the additional acquisition of its common stock capital by the Company. Chuo Denki Tsushin Kensetsu Co., Ltd. also acquired (merged with) Tsuken Kiko Co., Ltd., a consolidated subsidiary of the Company, on 1st January, 2003.

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 and affiliates 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. Also, Investments in unconsolidated 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*

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

### *(d) Short-term investments and investment securities*

The GAAP of Japan requires the classification of short-term investments and investment securities (except for "unconsolidated subsidiaries and affiliates") of the Companies into three categories as follows:

i) Debt securities that are expected to be held-to-maturity: carried at accumulated cost using straight-line method.

ii) Other securities whose fair values are readily determinable: carried at fair value with unrealized gains or losses included in Stockholders' Equity as "Unrealized gain (loss) on securities," net of applicable income taxes.

iii) Other securities whose fair values are not readily determinable: carried at cost using moving-average method.

With respect to investments in unconsolidated subsidiaries and affiliates, the Companies are carrying their amounts at cost, determined by the moving average cost.

### *(e) Accumulated cost of construction in progress*

In connection with (b) above, "Accumulated cost of construction in progress" is stated at cost based on an individual project basis.

### *(f) Property and equipment*

Property and equipment are stated at cost. Depreciation is computed primarily by the declining-balance method; while the straight-line method is applied to building acquired after 1st April, 1998, both using estimated useful lives of assets principally as follows:

Buildings and structures 2 to 50 years

### *(g) Intangible assets and deferred charges*

Intangible assets including software are carried at cost and amortized by the straight-line method over the estimated useful lives of assets. The useful life of software utilized in the Companies is estimated to be 5 years. Research and development costs are charged to income as incurred.

### *(h) Leases*

Financial leases that do not transfer ownership of the property to lessee are accounted for as transactions of rent. Under the 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.

### *(i) 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. In the preparation of the consolidated financial statements, deferred tax assets and liabilities also arose from the elimination of unrealized profits among the Companies and the adjustment of the allowance for doubtful receivables caused by the offsetting of inter-company receivables and payables.

### *(j) 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 13).

### *(k) Net income and cash dividends per share*

The computations of basic net income per share are based on the weighted average number of shares outstanding during each year. Diluted net income per share assumes the dilution that could occur if convertible bonds were converted into common stock. Effective from the financial year ended March 31, 2003, the GAAP of Japan have required deductions of the amounts with which stockholders of common stock are not vested (e.g. bonus paid to directors and corporate auditors) from net income when computing net income per share.

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. Short-term Investments and Investment Securities-other

Information that is required to be disclosed in the Notes to the consolidated financial statements by the regulations and rules on disclosures under the Securities and Exchange Laws of Japan, as amended to conform to certain reclassifications of account balances made to present the consolidated financial statements, consists of the following:

(a) Debt securities that are expected to be held-to-maturity whose fair value was readily determinable as at 31st March, 2002 and 2003, were as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 31st March, 2002 | | 31st March, 2003 | | 31st March, 2003 | |
| | Book value | Fair value | Book value | Fair value | Book value | Fair value |
| Japanese government bonds | ¥99 | ¥100 | ¥100 | ¥100 | $832 | $832 |

(b) Other securities whose fair value was readily determinable as at 31st March, 2002 and 2003, were as follows:

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31st March, 2002 | | | | 31st March, 2003 | | | |
| Classification | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Stocks | ¥1,128 | ¥219 | ¥278 | ¥1,069 | ¥1,041 | ¥126 | ¥308 | ¥ 859 |
| Bonds and debentures | 1,010 | 20 | 8 | 1,022 | 168 | 2 | — | 170 |
| Others | 1,491 | 1 | 180 | 1,312 | 1,157 | 1 | 137 | 1,021 |
| Total | ¥3,629 | ¥240 | ¥466 | ¥3,403 | ¥2,366 | ¥129 | ¥445 | ¥2,050 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 31st March, 2003 | | | |
| Classification | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Stocks | $ 8,661 | $1,048 | $2,562 | $ 7,147 |
| Bonds and debentures | 1,397 | 17 | — | 1,414 |
| Others | 9,626 | 8 | 1,140 | 8,494 |
| Total | $19,684 | $1,073 | $3,702 | $17,055 |

(c) Proceeds from sales of other securities and realized gains/losses on such sales, cost of the sales being determined by moving average method, for the year ended 31st March, 2002 and 2003, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | For the year ended 31st March | | For the year ended 31st March |
| | 2002 | 2003 | 2003 |
| Proceeds from sales | ¥324 | ¥608 | $5,058 |
| Realized gains | 9 | 39 | 324 |
| Realized losses | 38 | 28 | 233 |

(d) Other securities whose fair value was not readily determinable as at 31st March, 2002 and 2003 mainly consisted of unlisted stocks amounted to ¥2,029 million and ¥2,935 million (US$24,418 thousand), respectively.

(e) Debt securities that are expected to be held-to-maturity and other securities with maturity dates as at 31st March, 2002 and 2003 consisted of the following:

Book value

| | Millions of yen | | | |
|---|---|---|---|---|
| 31st March, 2002 Due: | Within 1 yr. | Within 5 yr. | Within 10 yr. | After 10 yr. |
| Bonds and debentures: | | | | |
| Japanese government bonds | ¥ — | ¥100 | ¥— | ¥ — |
| Corporate bonds | 500 | 280 | 10 | — |
| Others | 267 | — | — | — |
| Total | ¥767 | ¥380 | ¥10 | ¥ — |

| | Millions of yen | | | |
|---|---|---|---|---|
| 31st March, 2003 Due: | Within 1 yr. | Within 5 yr. | Within 10 yr. | After 10 yr. |
| Bonds and debentures: | | | | |
| Japanese government bonds | ¥100 | ¥ — | ¥— | ¥ — |
| Corporate bonds | 100 | 50 | 10 | — |
| Others | — | — | — | — |
| Total | ¥200 | ¥50 | ¥10 | ¥ — |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| 31st March, 2003 Due: | Within 1 yr. | Within 5 yr. | Within 10 yr. | After 10 yr. |
| Bonds and debentures: | | | | |
| Japanese government bonds | $ 832 | $ — | $— | $ — |
| Corporate bonds | 832 | 416 | 83 | — |
| Others | — | — | — | — |
| Total | $1,664 | $416 | $83 | $ — |

For the years ended 31st March, 2002 and 2003, the Companies made write-down of investment securities, whose fair value was readily determinable, amounting to ¥15 million and ¥189 million (US$ 1,572 thousand), respectively, following an accounting policy of the Companies which requires a write-down of investment securities whose fair value at the fiscal year's end declined to an amount not more than 50% of the book value.

## 4. 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, 2002 and 2003, was approximately 0.9 per cent. and 1.4 per cent., respectively.

At 31st March, 2003, a short-term bank loan of a consolidated subsidiary amounting to ¥145 million (US$1,206 thousand) was secured. A summary of assets pledged as collateral consisted of the following:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Buildings and structures, net of accumulated depreciation | ¥26 | $216 |
| Land | 4 | 33 |
| | ¥30 | $249 |

At 31st March, 2002, long-term debt consisted of the following:

| | Millions of yen |
|---|---|
| 0.3 per cent yen unsecured convertible bonds due 2003 | ¥9,312 |
| Less: Current portion | 9,312 |
| Total | ¥ — |

## 5. Accrued 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. With respect to directors and corporate auditors of the Companies, lump-sum severance indemnities are calculated using a similar formula and are normally paid subject to the approval at the shareholders' meeting of each of the Companies.

The Company has a contributory and funded defined benefit pension plan, which is pursuant to the Welfare Pension Insurance Law of Japan. The contributory pension plan covers a portion of the governmental welfare pension program, under which the Company and its employees make the contributions. As qualified and allowed under the GAAP of Japan, the plan assets include an employee retirement benefit trust to which the Company contributed certain marketable equity securities in July 2000.

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, several subsidiaries have funds for tax qualified defined benefit pension plans and a few subsidiaries have non-contributory and funded defined benefit pension plans.

"Accrued severance indemnities" recognized in the consolidated balance sheet as at 31st March, 2002 and 2003 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| Projected benefit obligation | ¥(47,594) | ¥(48,200) | $(400,998) |
| Fair value of plan assets | 35,813 | 32,791 | 272,803 |
| Unfunded benefit obligation | (11,781) | (15,409) | (128,195) |
| Unrecognized actuarial difference | 8,529 | 13,644 | 113,511 |
| Net amount recognized | ¥ (3,252) | ¥ (1,765) | $ (14,684) |

"Accrued severance indemnities" in the consolidated balance sheet as at 31st March, 2002 and 2003 includes the provision for accrued severance indemnities for directors and corporate auditors of the Companies amounted to ¥388 million and ¥429 million (US$3,569 thousand), respectively.

Net pension cost of the plans included in the consolidated statements of income and retained earnings for the years ended 31st March, 2002 and 2003 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| Service cost | ¥2,593 | ¥ 2,270 | $ 18,885 |
| Interest cost | 1,351 | 1,309 | 10,890 |
| Expected return of plan assets | (497) | (89) | (741) |
| Amortization of unrecognized actuarial difference | 522 | 603 | 5,017 |
| Amortization of unrecognized prior service cost (negative) | (596) | — | — |
| Other | 22 | 28 | 233 |
| Net pension cost | ¥3,395 | ¥ 4,121 | $ 34,284 |
| Reversal of the prior service cost due to the cut-off of the level of employee pension plan | — | (1,597) | (13,286) |
| Total, net | ¥3,395 | ¥ 2,524 | $ 20,998 |

Unrecognized actuarial differences are amortized and charged to income using a straight-line method from the succeeding year of the incurrence over the average remaining years of service of employees at the incurrence.

Significant assumptions used to calculate the above-mentioned amount were as follows:

- Allocation method of benefit obligation Straight-line method
- Discount rate 3.0%
- Expected rate of return on plan assets 3.0%
- Unrecognized prior service cost is amortized at the incurrence.
- Unrecognized actuarial difference is amortized over 15 years from the succeeding fiscal year of the incurrence.

## 6. Contingent Liabilities

At 31st March, 2002 and 2003, contingent liabilities consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| Guarantees of loans borrowed by: | | | |
| COMSYS Thailand Co., Ltd. | ¥1,590 | ¥1,876 | $15,608 |
| COMSYS Philippines, Inc. | 1,032 | — | — |
| Other | 98 | 73 | 607 |
| | ¥2,720 | ¥1,949 | $16,215 |

## 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 the two years ended 31st March, 2002 and 2003. The effective tax rate reflected in the accompanying consolidated statements of income and retained earnings 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 year ended 31st March, 2003, primarily consisted of the following:

| | |
|---|---|
| Statutory tax rate of the Company | 42.0% |
| Effects of: | |
| Expenses permanently not deductible for income tax purpose | 4.6 |
| Dividend income deductible for income tax purpose | (0.6) |
| Write-down of deferred tax assets (net) arising from a change of statutory tax rate applicable to certain timing differences | 1.9 |
| Other, net | 1.0 |
| Effective tax rate | 48.9% |

Deferred tax assets and liabilities of the Companies, except for that relating to land revaluation mentioned in Note 11, as of 31st March, 2002 and 2003, primarily consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2002 | 2003 | 2003 |
| Deferred tax assets: | | | |
| Accrued bonuses | ¥ 878 | ¥ 719 | $ 5,982 |
| Accrued severance indemnities | 2,542 | 2,026 | 16,855 |
| Allowance for doubtful receivables | 506 | 601 | 5,000 |
| Allowance for losses arising from guarantees of loans | 706 | — | — |
| Write-down of investments in unconsolidated subsidiaries | 467 | 368 | 3,061 |
| Others | 1,196 | 723 | 6,015 |
| | 6,295 | 4,437 | 36,913 |
| Less: Valuation allowance | (100) | (175) | (1,456) |
| | 6,195 | 4,262 | 35,457 |
| Deferred tax liabilities: | | | |
| Deferred gain on exchange of lands | (90) | (100) | (832) |
| Revaluation of land owned by subsidiaries | — | (482) | (4,010) |
| Unrealized gain on securities | (3) | (8) | (66) |
| | (93) | (590) | (4,908) |
| Net deferred tax assets | ¥6,102 | ¥3,672 | $30,549 |

## 8. Leases

*(As a 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, 2002 and 2003, which would have been reflected in the consolidated balance sheets if capitalized, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| 31st March | 2002 | 2003 | 2003 |
| Acquisition costs | ¥394 | ¥279 | $2,321 |
| Accumulated depreciation | 217 | 159 | 1,323 |
| Net book value | ¥177 | ¥120 | $ 998 |

Lease payments relating to financial leases accounted for as transactions of rent amounted to ¥67 million and ¥57 million (US$474 thousand) for the years ended 31st March, 2002 and 2003, respectively.

Obligation (including the interest portion thereon) under financial leases at 31st March, 2002 and 2003, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| 31st March | 2002 | 2003 | 2003 |
| Due within one year | ¥ 62 | ¥ 47 | $391 |
| Due after one year | 115 | 73 | 607 |
| Total | ¥177 | ¥120 | $998 |

*(As a Lessor)*

One of the Companies leases mainly machinery and equipment by financial leases. Future lease receipts, inclusive of interest, at 31st March, 2002 and 2003 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| 31st March | 2002 | 2003 | 2003 |
| Due within one year | ¥248 | ¥ 383 | $ 3,186 |
| Due after one year | 469 | 877 | 7,296 |
| Total | ¥717 | ¥1,260 | $10,482 |

Lease fees received and depreciation charges for the years ended 31st March, 2002 and 2003 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| 31st March | 2002 | 2003 | 2003 |
| Lease fees received | ¥383 | ¥398 | $3,311 |
| Depreciation | 212 | 285 | 2,371 |

## 9. Segment Information

The Companies' operating results consisted of two business segments. Effective from 1st April, 2002, the Companies changed the method of segmentation, which re-categorized mainly construction related business in the Information System Sector from "Other" to "Construction." Conforming to the method mentioned above, information by business segment required to be disclosed for the years ended and as of 31st March, 2002 and 2003, were summarized as follows:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | For the year ended/as of 31st March, 2002 | | | | |
| | Construction | Other | Total | Corporate/ Eliminations | Consolidated |
| Sales to customers | ¥216,575 | ¥14,776 | ¥231,351 | ¥ — | ¥231,351 |
| Intersegment sales/ transfers | — | 7,258 | 7,258 | (7,258) | — |
| Total | 216,575 | 22,034 | 238,609 | (7,258) | 231,351 |
| Operating expenses | 207,096 | 20,946 | 228,042 | (7,191) | 220,851 |
| Operating income | ¥ 9,479 | ¥ 1,088 | ¥ 10,567 | ¥ (67) | ¥ 10,500 |
| Assets | ¥181,065 | ¥ 9,511 | ¥190,576 | ¥ — | ¥190,576 |
| Depreciation and amortization | 2,805 | 558 | 3,363 | — | 3,363 |
| Capital expenditures | 5,978 | 412 | 6,390 | — | 6,390 |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | For the year ended/as of 31st March, 2003 | | | | |
| | Construction | Other | Total | Corporate/ Eliminations | Consolidated |
| Sales to customers | ¥186,547 | ¥14,063 | ¥200,610 | ¥ — | ¥200,610 |
| Intersegment sales/ transfers | — | 5,502 | 5,502 | (5,502) | — |
| Total | 186,547 | 19,565 | 206,112 | (5,502) | 200,610 |
| Operating expenses | 180,869 | 18,700 | 199,569 | (5,449) | 194,120 |
| Operating income | ¥ 5,678 | ¥ 865 | ¥ 6,543 | ¥ (53) | ¥ 6,490 |
| Assets | ¥156,876 | ¥ 9,652 | ¥166,528 | ¥ — | ¥166,528 |
| Depreciation and amortization | 2,890 | 755 | 3,645 | — | 3,645 |
| Capital expenditures | 2,565 | 178 | 2,743 | — | 2,743 |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | For the year ended/as of 31st March, 2003 | | | | |
| | Construction | Other | Total | Corporate/ Eliminations | Consolidated |
| Sales to customers | $1,551,972 | $116,996 | $1,668,968 | $ — | $1,668,968 |
| Intersegment sales/ transfers | — | 45,774 | 45,774 | (45,774) | — |
| Total | 1,551,972 | 162,770 | 1,714,742 | (45,774) | 1,668,968 |
| Operating expenses | 1,504,734 | 155,574 | 1,660,308 | (45,333) | 1,614,975 |
| Operating income | $ 47,238 | $ 7,196 | $ 54,434 | $ (441) | $ 53,993 |
| Assets | $1,305,125 | $ 80,299 | $1,385,424 | $ — | $1,385,424 |
| Depreciation and amortization | 24,043 | 6,281 | 30,324 | — | 30,324 |
| Capital expenditures | 21,339 | 1,481 | 22,820 | — | 22,820 |

## 10. Shareholders' Equity

The Commercial Code of Japan (the "Commercial Code") provides that an amount not less than 10 per cent of cash dividends and bonuses to directors paid as appropriations of retained earnings, as well as the amount of 10 per cent of interim cash dividends, be set aside in legal reserve until an aggregate amount of additional paid-in capital and the legal reserve equals 25 per cent of the amount of stated capital. The additional paid-in capital and the legal reserve may be transferred to stated capital by a resolution of the board of directors or used to reduce a deficit by shareholders' resolution, but they are not available for dividend payment. On condition that the aggregate amount of additional paid-in capital and the legal reserve remains equal to or exceeding 25 per cent of the amount of stated capital, it is available for distributions by the resolution of the shareholders' meeting within a certain limit. The amount of the legal reserve of the Company included in "Retained earnings" as at both 31st March, 2002 and 2003 was ¥2,093 million (US$17,413 thousand).

Under the Commercial Code, the entire amount of the issue price of new shares is required to be accounted for as "Common stock," although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of such new shares as "Additional paid-in capital."

For the year ended 31st March, 2003, as allowed by the Commercial Code, the Company retired 810 thousand shares of its common stock acquired and amounting to ¥677 million (US$5,632 thousand), and the authorized shares of the Company decreased by 810 thousand, from 247,763 thousand to 246,953 thousand, due to this retirement of common stock.

## 11. Revaluation of Land for Business

At 31st March, 2002, land owned by the Company was revalued under the Land Revaluation Law and related regulations. Net unrealized gains and losses resulting from the revaluation were debited directly to shareholders' equity as a negative revaluation surplus after adding the related deferred tax liabilities as mentioned bellow. The negative revaluation surplus will be credited as a gain or loss when a part of the land is sold.

The book value before and after revaluation and unrealized gains and losses resulting from the revaluation at 31st March, 2002, in the aggregate, were as follows:

| | Millions of yen |
|---|---|
| Book value: | |
| Before revaluation | ¥22,995 |
| After revaluation | 16,847 |
| Unrealized— | |
| Gains | 5,915 |
| Losses | 12,063 |
| Net (loss) | ¥ (6,148) |

The fair value for the revalued land mentioned above as of 31st March, 2003 has been reduced by ¥684 million (US$5,691 thousand) in the aggregate, but the book value has not been restated, as allowed by the GAAP of Japan.

Deferred tax assets and liabilities relating to revaluation of land of the Company as of 31st March, 2003, restated due to an applicable statutory tax rate, consisted of the following:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Deferred tax assets: | | |
| Relating to unrealized losses | ¥4,825 | $40,141 |
| Less: Valuation allowance | (4,825) | (40,141) |
| | — | — |
| Deferred tax assets: | | |
| Relating to unrealized gains | 2,366 | 19,684 |
| Net: Deferred tax liabilities | ¥2,366 | $19,684 |

## 12. Other Income and Expenses

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| 31st March | 2002 | **2003** | **2003** |
| Foreign exchange gains | ¥ 154 | **¥ (170)** | **$ (1,414)** |
| Allowance for doubtful receivables | (242) | **(469)** | **(3,902)** |
| Allowance for losses arising from guarantees of loans | (1,680) | **0** | **0** |
| Write-down of investments and other assets | (142) | **(327)** | **(2,720)** |
| Amortization of newly consolidation adjustments | 304 | **18** | **150** |
| Gain on reversal of the prior service cost | — | **1,597** | **13,286** |
| Loss on sales of investments in securities | — | **(146)** | **(1,215)** |
| Loss on liquidation of subsidiaries and affiliates | — | **(490)** | **(4,077)** |
| Special charge arising from employees' retirement benefits | — | **(1,234)** | **(10,266)** |
| Other | (216) | **137** | **1,140** |
| | ¥(1,822) | **¥(1,084)** | **$ (9,018)** |

## 13. Subsequent Events

(a) On 27th June, 2003, the shareholders of the Company approved the following appropriations of retained earnings:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends | ¥ 923 | $ 7,679 |
| Bonuses paid to directors | 31 | 258 |
| Reserve for cash dividends | 1,700 | 14,143 |

(b) On 27th June, 2003, the shareholders of the Company approved paving the way for the establishment of COMSYS Holdings Corporation, a parent company under which the Company, Sanwa ELEC Co., Ltd. and TOSYS Corporation will become wholly owned subsidiaries through the transfer of shares, as stipulated in Article 364 of the Commercial Code of Japan.

A summary of the transfer of shares is as follows:

i) A total of 145,977,866 shares of common stock in COMSYS Holdings Corporation will be issued, and these will be distributed to all shareholders of record, including beneficial shareholders, listed in the shareholder registers of the Company, Sanwa ELEC Co., Ltd. and TOSYS Corporation in the ratios described below:
   a) Shareholders of the Company will receive one share of COMSYS Holdings Corporation common stock for every one share of the Company's common stock,
   b) Shareholders of Sanwa ELEC Co., Ltd. will receive 0.27 share of COMSYS Holdings Corporation common stock for every one share of Sanwa ELEC Co., Ltd. common stock, and
   c) Shareholders of TOSYS Corporation will receive 0.98 share of COMSYS Holdings Corporation common stock for every one share of TOSYS Corporation common stock.

ii) Capital and Additional Paid-in Capital for COMSYS Holdings Corporation
   a) Capital: ¥10 billion
   b) Additional Paid-in Capital: The amount remaining after the aforementioned capital and the share transfer payment have been subtracted from the combined net assets of the Company, Sanwa ELEC Co., Ltd. and TOSYS Corporation on the day that the transfer of shares is executed. However, this may be adjusted by agreement among the Company, Sanwa ELEC Co., Ltd. and TOSYS Corporation if the state of their net assets is deemed to require such adjustment.

iii) Share Transfer Payments
   Every shareholder, including beneficiary shareholders, and every registered holder of voting rights on the registers of the Company and TOSYS Corporation at the end of the day preceding the day on which shares will be transferred will receive a share transfer payment of ¥5 for each share of the Company and TOSYS Corporation. However, the amount of this transfer payment may be adjusted by agreement among the Company, Sanwa ELEC Co., Ltd. and TOSYS Corporation, or by COMSYS Holdings Corporation, if the state of the net assets of the Company and/or TOSYS Corporation or their economic circumstances is deemed to require such adjustment.

# Report of Independent Certified Public Accountants

*O-Yu Kyodo Office*

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors,
Nippon COMSYS Corporation

We have audited the accompanying consolidated balance sheets of Nippon COMSYS Corporation (the "Company") and its consolidated subsidiaries as of 31st March, 2002 and 2003, and the related consolidated statements of income and retained earnings and cash flows for each of the two years ended 31st March, 2003, all expressed in Japanese yen. Preparing these financial statements is the responsibility of the Company's management. Our responsibility is limited to express an independent opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan, which require that we plan and perform the audits to obtain reasonable assurance that the financial statements are free of material misstatement. Our audits include examining evidence supporting the amounts and disclosures of the financial statements on a test basis, and also include assessing the accounting policies and significant estimates adopted and applied by the Company's management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon COMSYS Corporation and its consolidated subsidiaries as of 31st March, 2002 and 2003, and the consolidated results of their operations and cash flows for each of the two years ended 31st March, 2003, in conformity with accounting principles and practices generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to the following:

a) As described in Note 9 to the consolidated financial statements, effective from 1st April, 2002, the Company changed the method of segmentation, and

b) As described in Note 13(b) to the consolidated financial statements, the shareholders of the Company approved paving the way for the establishment of COMSYS Holdings Corporation, a parent company under which the Company, Sanwa ELEC Co., Ltd. and TOSYS Corporation will become wholly owned subsidiaries through the transfer of shares.

The U.S. dollar amounts, presented solely for the convenience of the readers, have been translated on the basis as described in Note 1 to the consolidated financial statements.

Masatoshi Yoshino　　Eiji Miyashita　　Hideo Niwa

Certified Public Accountants of Japan

Tokyo, Japan
27th June, 2003

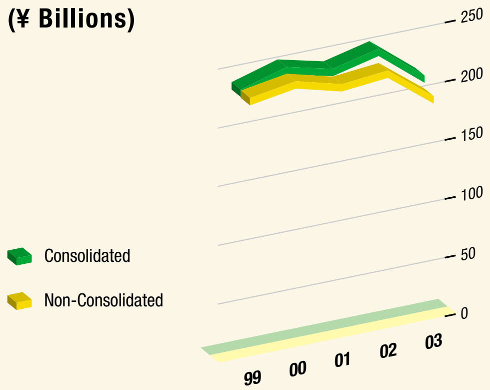
# Supplemental Non-Consolidated Financial Information

Nippon COMSYS Corporation
Years ended 31st March, 2002 and 2003

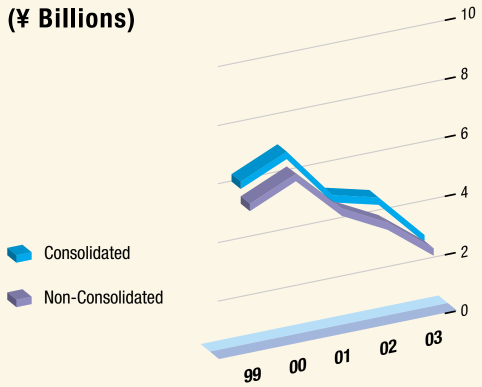
| | Millions of yen | | Thousands of U.S. dollars | Change |
|---|---|---|---|---|
| | 2002 | 2003 | 2003 | (%) |
| Net sales | ¥219,206 | **¥189,258** | **$1,574,526** | –13.7% |
| Operating income | 8,526 | **5,378** | **44,742** | –36.9% |
| Net income | 3,461 | **2,274** | **18,918** | –34.3% |
| Total assets | 159,344 | **142,993** | **1,189,626** | –10.3% |
| Shareholders' equity | 102,883 | **102,124** | **849,617** | –0.7% |
| | Yen | | U.S. dollars | |
| **Per share:** | | | | |
| Net income | | | | |
| — Basic | ¥ 25.48 | **¥ 16.89** | **$ 0.14** | –33.7% |
| — Diluted | 24.41 | **—** | **—** | —% |
| Cash dividends | 10.00 | **12.00** | **0.10** | 20.0% |

*Note: For convenience only, the accompanying Japanese yen figures for 2003 have been translated into U.S. dollars at the rate of ¥120.20 to $1, the rate prevailing on 31st March, 2003.*

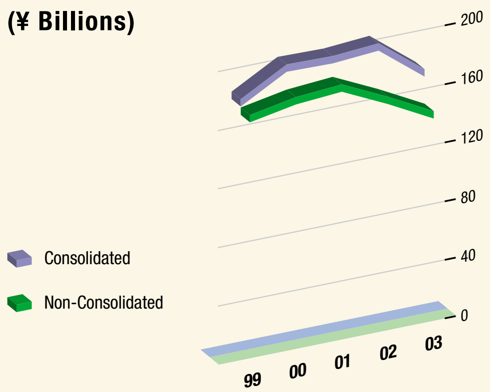
**Net Sales (¥ Billions)**



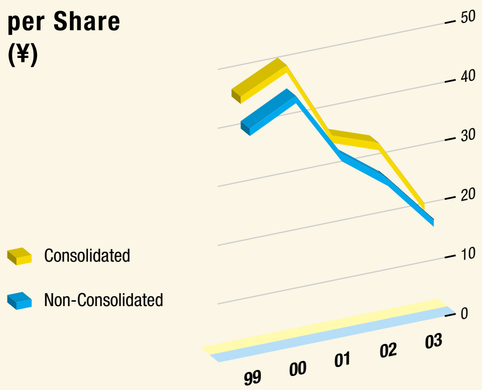

**Net Income (¥ Billions)**




**Total Assets (¥ Billions)**



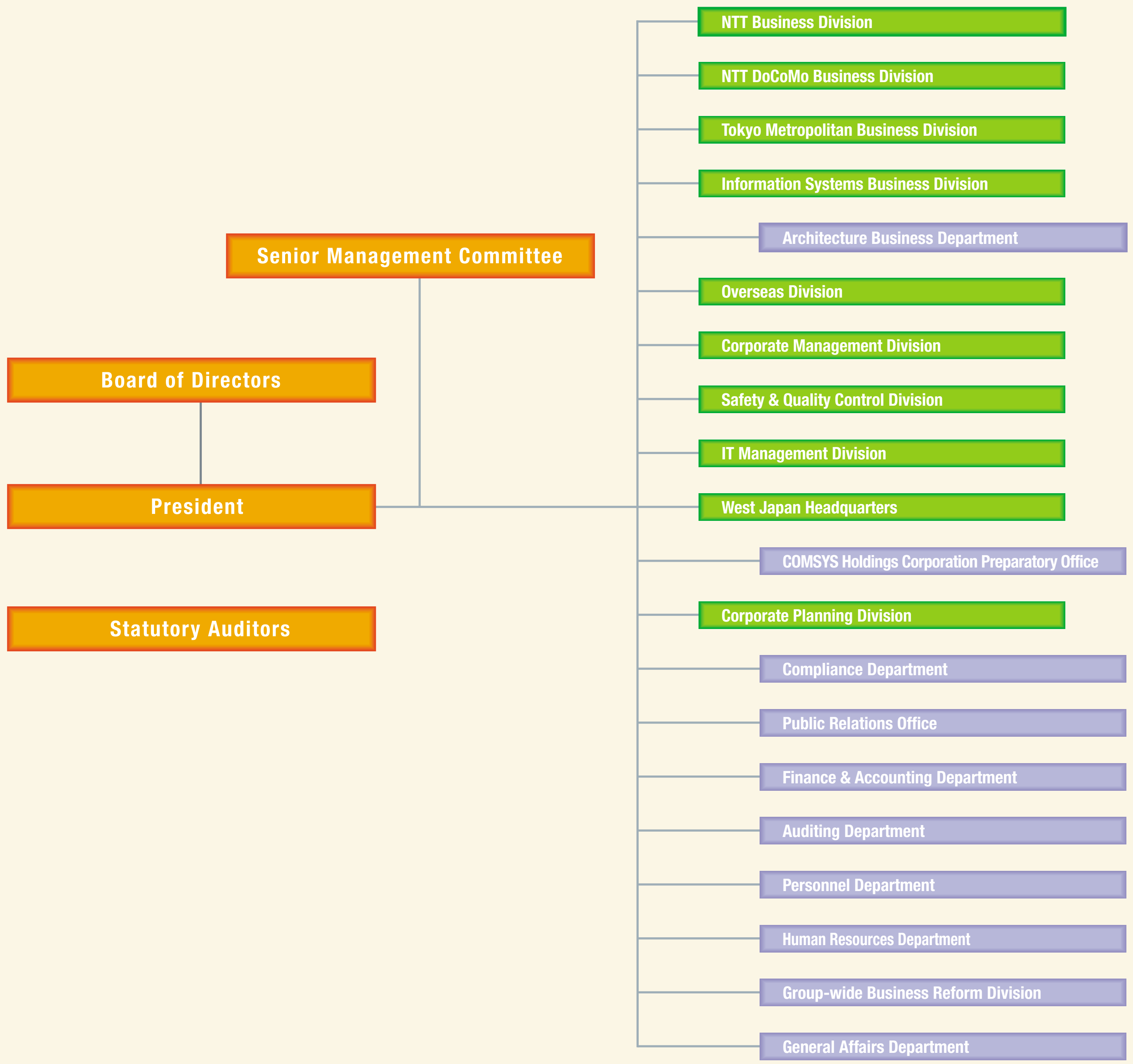

**Net Income per Share (¥)**






# Organization Chart

As of July 1, 2003



# Corporate Information

As of March 31, 2003

**Head Office:**
17-1, Higashigotanda 2-chome,
Shinagawa-ku
Tokyo 141-8647, 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

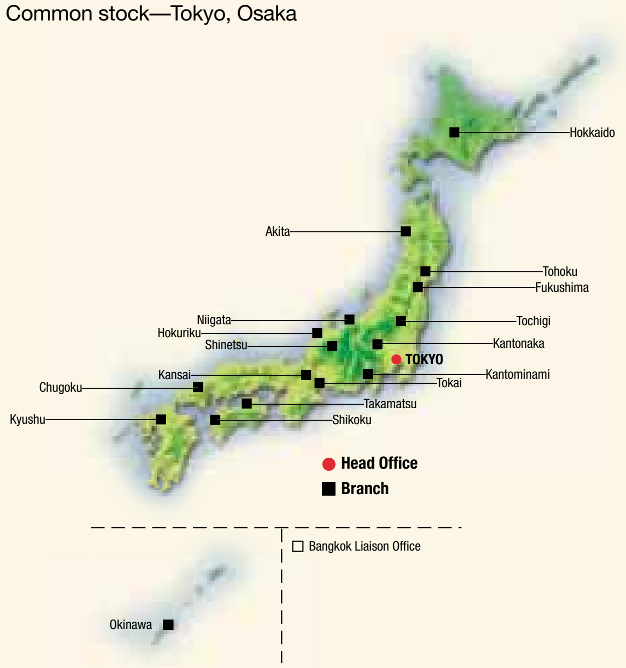
**Establishment:**
1951

**Common Stock:**
Authorized: 246,953,000 shares
Issued: 134,454,252 shares

**Number of Shareholders:**
10,020

**Paid in Capital:**
¥31,140 million

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




**Transfer Agent:**
The Mitsubishi Trust and Banking Corporation
Securities Department
11-1, Nagatacho 2-chome
Chiyoda-ku, Tokyo 100-0014

**Number of Employees:**

| | |
|---|---|
| Parent company | 3,398 |
| Consolidated subsidiaries | 1,361 |
| Total | 4,759 |

**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)
KDDI Corporation (KDDI)
Japan Telecom Co., Ltd. (JAPAN TELECOM)
J-PHONE Communications Co., Ltd. (J-PHONE)
The Tokyo Electric Power Company, Incorporated
The Furukawa Electric Co., Ltd.
Sumitomo Electric Industries, Ltd.
Matsushita Electric Industrial Co., Ltd.
Fujikura Ltd.
Hitachi Cable, Ltd.
NEC Corporation
Sharp Corporation
Fuji Xerox Co., Ltd.
IBM Japan, Ltd.
Fujitsu Limited
Lucent Technologies
Mitsubishi Corporation
Mitsui & Co., Ltd.
Sumitomo Corporation
Marubeni Corporation
TOT Corporation (Thailand)
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)
East Asia Crossing Philippines Inc. (Philippines)
Ministry of Communications (Kuwait)

**Bank References:**
The Bank of Tokyo-Mitsubishi, Ltd.
The Mitsubishi Trust and Banking Corporation
Mizuho Bank, Ltd.
UFJ Bank, Limited
The Sumitomo Mitsui Banking Corporation



# Corporate Directory

Nippon COMSYS Corporation
As of March 31, 2003

| Company Name | Location | Principal Business | Paid-in Capital | Percentage Owned (%) |
|---|---|---|---|---|
| **Consolidated Subsidiaries and Affiliates** | | | | |
| OT Engineering Co., Ltd. | Tokyo, Japan | Telecommunications engineering and electrical engineering | ¥120 million | 99.8 |
| 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 | 92.6 |
| Tokyo Tsuken Co., Ltd. | Tokyo, Japan | Construction of telecommunications facilities | ¥ 54 million | 55.5 |
| Nitto Tsuken Co., Ltd. | Tokyo, Japan | Construction of telecommunications facilities | ¥ 60 million | 52.2 |
| Taiei Seisakusho Co., Ltd. | Kanagawa, Japan | Design, manufacturing, and sales of telecommunications equipment | ¥ 60 million | 49.7 |
| COMSYS Tusan Co., Ltd. | Tokyo, Japan | Telecommunications material sales and leasing | ¥ 60 million | 100.0 |
| COMSYS Business Service Co., Ltd. | Tokyo, Japan | Construction of telecommunications facilities | ¥304 million | 100.0 |
| COMSYS Net Corporation | Tokyo, Japan | Construction of telecommunications facilities | ¥ 50 million | 100.0 |
| COMSYS Tohoku Techno Co., Ltd. | Miyagi, Japan | Planning and consultation with regard to information-processing technology | ¥ 50 million | 100.0 |
| COMSYS Shinetsu Engineering Co., Ltd. | Nagano, Japan | Construction of telecommunications facilities | ¥ 30 million | 100.0 |
| COMSYS Kansai Engineering Co., Ltd. | Osaka, Japan | Construction of telecommunications facilities | ¥ 50 million | 100.0 |
| COMSYS Kyusyu Engineering Co., Ltd. | Fukuoka, Japan | Construction of telecommunications facilities | ¥ 50 million | 100.0 |
| Chuo Denki Tsushin Kensetsu Co., Ltd.* | Tokyo, Japan | Construction of telecommunications facilities | ¥ 50 million | 100.0 |
| **Major Non-Consolidated Subsidiaries and Affiliates** | | | | |
| Nippo Kensetsu Kogyo Co., Ltd. | Tokyo, Japan | Civil engineering | ¥250 million | 91.0 |
| Jinwa Co., Ltd. | Saitama, Japan | Construction of telecommunications facilities | ¥ 60 million | 35.0 |
| **Overseas Affiliates** | | | | |
| COMSYS Thailand Co., Ltd. | Bangkok, Thailand | Technological consulting and engineering services | B 15,000 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 | P 12,500 thousand | 30.0 |
| CMC Engineering SDN. BHD. | Kuala Lumpur, Malaysia | Technological consulting and engineering services | RM1,053 thousand | 30.0 |

* *Our further acquisition of shares in Chuo Denki Tsushin Kensetsu Co., Ltd. means that it is now a subsidiary of ours, and subject to inclusion in our consolidated results. Tsuken Kiko Co., Ltd., which was previously a subsidiary of Nippon COMSYS, was fully merged with Chuo Denki Tsushin Kensetsu on January 1, 2003.*

**This Company's financial data is available on the Internet at URL http://www.comsys.co.jp/*

Nippon COMSYS Corporation

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Shinagawa-ku, Tokyo 141-8647, Japan
Telephone: 81-3-3448-7031
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