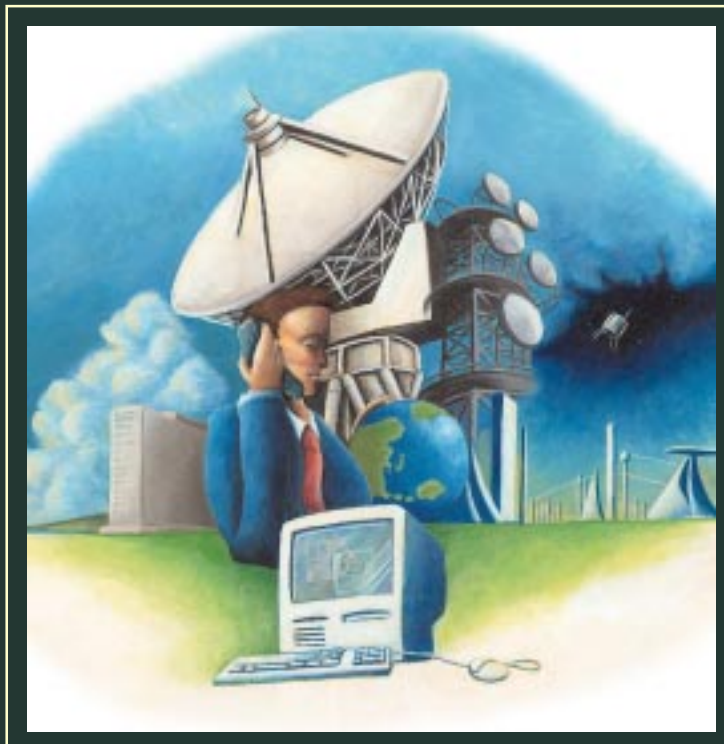


ANNUAL REPORT

1998

Fiscal Year Ended March 31, 1998



COMSYS — For Excellence in
Telecommunications



Nippon COMSYS Corporation

PROFILE



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

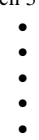
CONTENTS



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

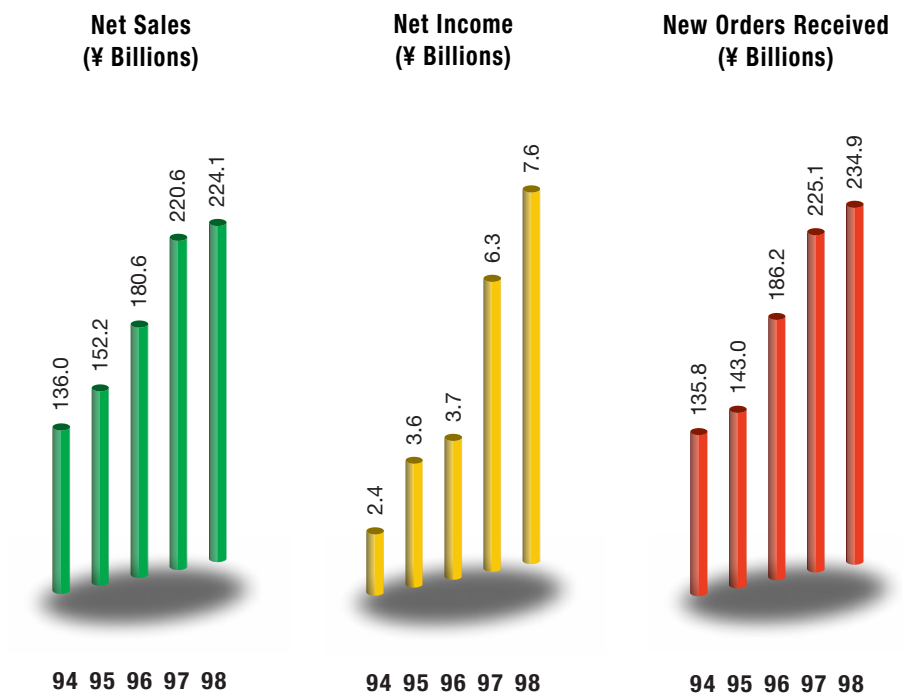
FINANCIAL HIGHLIGHTS

Nippon COMSYS Corporation
Years ended March 31, 1997 and 1998



	Millions of yen		Thousands of U.S. dollars	Change (%)
	1997	1998	1998	
Contract backlog at beginning of the year	¥ 53,127	¥ 57,684	\$ 437,000	8.6%
New orders received during the year	225,147	234,877	1,779,371	4.3%
Net sales	220,590	224,103	1,697,750	1.6%
Contract backlog at end of year	57,684	68,458	518,621	18.7%
Net income	¥ 6,267	¥ 7,611	\$ 57,659	21.5%
Total assets	154,246	160,561	1,216,371	4.1%
Shareholders' equity	65,096	90,101	682,583	38.4%
	Yen		U.S. dollars	
Per share:				
Net income	¥54.27	¥60.96	\$0.46	12.3%
Cash dividends	11.75	14.25	0.11	21.3%

Note: Yen figures have been converted from U.S. dollars at the rate of ¥132.00=US\$1, rounded, for convenience only, from an approximate exchange rate of ¥132.10 to the dollar on March 31, 1998.



LETTER FROM THE MANAGEMENT

Environment

The Japanese economy was buffeted in fiscal 1997 (ended March 31, 1998), by weak consumer spending, Japan's troubled financial industry, and the severe problems in other Asian economies. The lack of confidence resulting from these developments had an adverse effect on Japanese securities markets. No signs of recovery, therefore, were apparent.

While the business environment overall was characterized by a mood of pessimism, deregulation in the telecommunications industry has brought rapid advances in international communications, and in the shift to multimedia computing. As the creation of a high order, information-based society proceeds on a global scale, NTT has scheduled its restructuring for next fiscal year. This has caused intensification of competition among telecommunications service providers, including European and North American firms, and there have been a number of mergers and tie-ups. Business conditions in this market have changed so drastically that the telecommunications industry is calling this a "warring states" era, after the Warring States period of Japanese history.

Nippon COMSYS Corporation has been closely scrutinizing these rapidly changing market trends, with an eye to strengthening its marketing capabilities, technological expertise, and cost competitiveness. As part of our attempt to increase orders from NTT, our biggest customer, and its subsidiaries and affiliates, we are engaged in a company-wide effort to strengthen our operations. This will allow us to respond to NTT's coming, post-reorganization contracting requirements. Further, we are expanding our operations in the area of software development, and are striving to expand orders for all types of telecommuni-

cations construction at home and overseas, with particular emphasis on Southeast Asia.

Performance

Despite the operating environment described above, we were able to achieve an increase in total orders received of 4.3 percent, to ¥234.9 billion (US\$1,779 million). Total revenues rose 1.6 percent to ¥224.1 billion (US\$1,698 million).

The Company's comprehensive reevaluation of operations in all areas continued throughout in this term, setting the stage for the implementation of new systems. Branches were reorganized as profit centers and given responsibility for their own performance. We consolidated and strengthened our subcontracting system, and took steps to apply funds with greater efficiency. These companywide efforts to improve profitability showed their effects in a 3.5 percent increase in operating income, which rose to ¥14.1 billion (US\$107 million), and in the 21.5 percent jump in net income, which increased to ¥7.6 billion (US\$58 million).

Outlook and Important Issues

NTT is implementing a new system that will allow contractors designated by NTT to exercise a great deal of discretion in the execution

of projects. To ensure that NTT and its group of companies remain the primary focus of our operations, we are employing our many years of experience in a radical reevaluation of our organization. While COMSYS is already an NTT-certified contractor, offering a full range of services from project planning, design, and execution to quality control, we must now expand our operation and strengthen our business base in preparation for the coming changes in NTT's system.



Shozo Iwasaki
Chairman of the Board

Shozo Iwasaki

With the global shift to multimedia computing and communications, the telecommunications market will diversify and continue to expand. However, a large portion of the Company's orders come from NTT and the companies of the NTT Group, and any forecast of COMSYS's performance must take this into account. The telecommunications industry can expect to see demand for investment in diversification, but with the completion of construction in connection with NTT's shift to digital services, growth in investment demand has to fall off.

Thus, the expansion of orders is the most pressing issue facing the Company. However, growth in non-NTT projects is forecast to be extremely vigorous, as the Company moves into new fields and diversifies its customer base. The strategic areas of "CC Box" (multi-use underground cable conduit) facilities, cable television operations, LANs, and other domestic projects, as well as information services and overseas projects are targeted for expansion.

COMSYS will continue to develop the marketing capabilities, technological expertise, and cost competitiveness needed to respond flexibly to today's changing conditions.

Dividends

Our fundamental dividend policy, which is among the most important issues we face, is to place primary emphasis on shareholder concerns in setting dividends. In preparation for future expansion of operations, we must strengthen our financial structure and improve our return on equity. We must also consider trends in the Company's performance and our ability to set dividends.

In the current term, the Company was faced with the responsibility to meet its obligations with regard to dividends to

holders of our fifth issue of notes with warrants. This notwithstanding, performance in this term allowed us to declare a midterm dividend of ¥7 per share (a ¥3 ordinary dividend and a ¥4 special dividend), as well as an ordinary dividend of ¥3 per share and another special dividend of ¥4.25 per share at year's end, for a total dividend of ¥14.25 per share for the term.

In the future, we will continue to place primary emphasis on dividends in providing returns to shareholders. However, in the interest of providing a more diversified return, from next

year forward we will also be buying back and retiring our issued stock shares. In accordance with this policy, next year we will declare dividends in the amount of ¥10 per share (a ¥5 midterm dividend and a ¥5 year-end dividend), and we will also set aside ¥5 per share for the buyback of our stock. This buyback is scheduled to continue until our fiscal 1999 midterm report.

Capital Investment and Fund Acquisition

Capital investments in the amount of ¥2.56 billion (US\$19 million) were made during the fiscal year, primarily for construction of our new Tohoku and Tokai branches. In addition, investments were made in the purchase of land adjoining the Shinetsu Branch's Yanagihara work site, and in construction

machinery. No bonds or other instruments were issued during this term.

Nippon COMSYS Corporation requests the continued support of the company's friends, clients, and shareholders, as we confront and overcome the challenges we face.



Hironobu Takeuchi
President

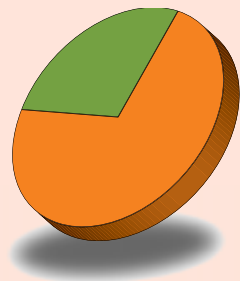
Hironobu Takeuchi

Toward the 21st Century - Our Vision of the Future

● The opening of the 21st century will be characterized by explosive growth in multimedia computing and communications, as the world sees the evolution of high order, information-based societies. For the telecommunications industry, this will mandate development of the ability to transmit data in any form, at any time, to any destination. The Ministry of Posts and Telecommunications has announced the Information Communications Infrastructure Program, which projects the development of an optical fiber network serving the entire nation by the year 2010. COMSYS expects to be deeply involved in the execution of this plan.

● To clarify its response to these trends, COMSYS has drafted a medium-term management plan, which it calls the COMSYS '90s II plan. The plan originally covered the period from 1994 through 1999, but is reevaluated annually, with particular emphasis on operational goals. The current reevaluation takes into account the continuing proliferation of multimedia computing and communications, as well as trends among telecommunications firms, with a perspective projected to the year 2002. Goals now include:

● Becoming a comprehensive engineering firm operating within the increasingly advanced, diverse, and expanding telecommunications market, with communications and computing technology to achieve improving performance and to make a contribution to the high-order information based society.



72% NTT
28% Non-NTT

Sources of Construction
Contracts

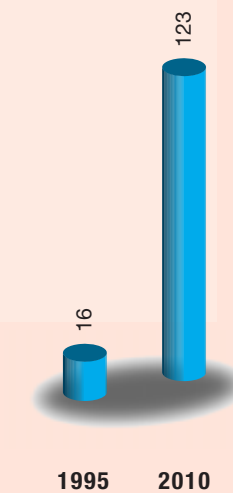


● Strengthening our NTT construction operations, as well as increasing the earnings of our domestic and overseas telecommunications construction projects and information services such as software development. By 2002, we will increase total annual revenues to ¥330 billion (US\$2,500 million), while bringing the ratio of NTT contracts down from the current 70 percent to approximately 50 percent.

● Responding to the intensifying cost competition in the market with a companywide efficiency enhancement program, which will encompass not only subsidiaries and affiliates, but subcontractor firms as well; and increasing total profits per employee in our manufacturing division by more than 20 percent, to achieve recurring profits of ¥18 billion (US\$136 million).

● Strengthening training programs and developing proprietary technology, primarily in the field of construction, in response to today's rapid pace of technological innovation.

● Continuing to stress mechanization and advanced facilities on our construction sites, for the purposes of improving the work environment and ensuring worker safety. COMSYS projects that Japan's multimedia market will grow to ¥123 trillion (US\$932 billion), including a video and computer software market of ¥29 trillion (US\$220 billion), a network service market of ¥23 trillion (US\$174 billion), and a communications and computer terminal market of ¥34 trillion (US\$258 billion). As a result, demand for optical-fiber related construction projects is forecast at ¥33-53 trillion (US\$250-402 billion). COMSYS is determined not just to play a role in the creation of these new and exciting communications capabilities, but to become the leading firm in the field. In this way, COMSYS will make a contribution to a higher quality of life, and to the enhanced business possibilities represented by these new telecommunications capabilities.



¥123 trillion (2010)
¥16 trillion (1995)

The Growing
Multimedia Market

CORPORATE CITIZENSHIP

● COMSYS is taking an active role in the communities that host it, fostering environmental awareness, sponsoring cultural events, and offering disaster-preparedness training.

● Mindful of the environmental effects of paper consumption, COMSYS has implemented a paperwork reduction program, with the objective of reducing the Company's paper use. Paperwork reduction will also, of course, result in increased administrative efficiency, as approximately 40 percent of the forms used by the Company will be abolished.

● Demonstrating its commitment to responsible conservation, COMSYS has published "Global Environmental Protection Regulations" to govern all phases of the Company's operations.

● In 1995, the Company spearheaded a drive to collect contributions to buy artificial limbs for the disabled victims of Cambodia's seemingly interminable wars. This drive, which brought in ¥2,750,781, was born of our desire to make even a small contribution to rebuilding that war-torn land, to bring a measure of relief to even one person.

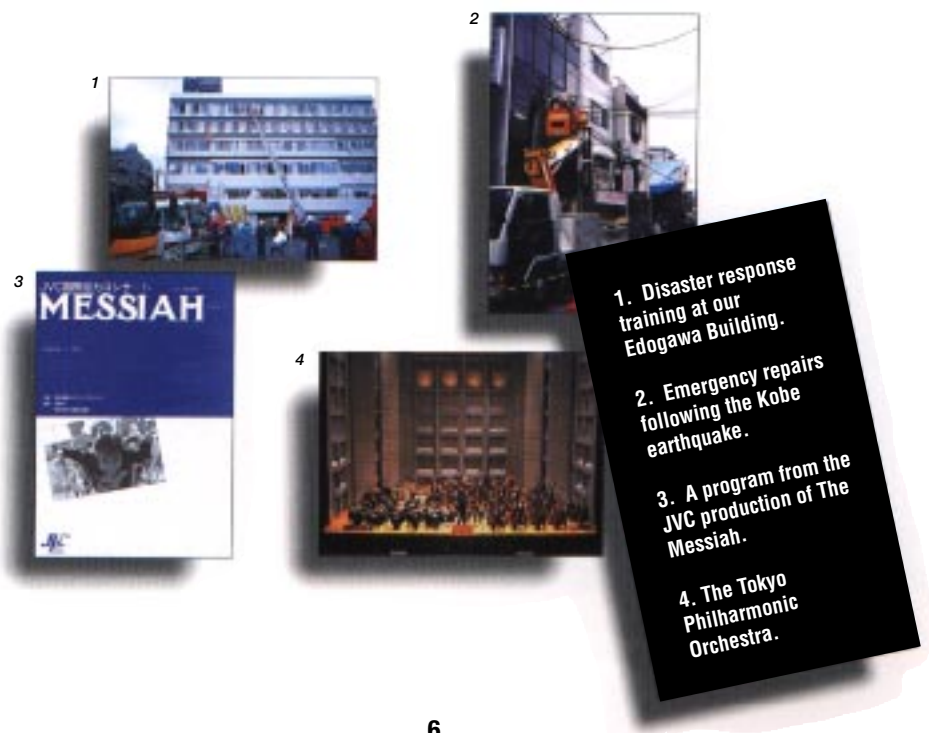
● In December 1994, COMSYS provided support to the Japan Volunteer Center (JVC) for a holiday presentation of Handel's Messiah at Tokyo's Showa Women's College. JVC is one of Japan's premier volunteer organizations, with members from eight countries in Asia, Africa, and Central and South America.

● In September 1996, the Company held a disaster-preparedness day at its headquarters and Tokyo region branches, the third to concentrate on earthquake response. The primary theme of this training was preparation for actions needed on construction sites following a major earthquake. The Company's ham radio club was again called upon to keep communications open, as they would be in an actual emergency. Evacuation and fire-fighting drills were held in cooperation with local fire departments, and the classroom training was held for key personnel.

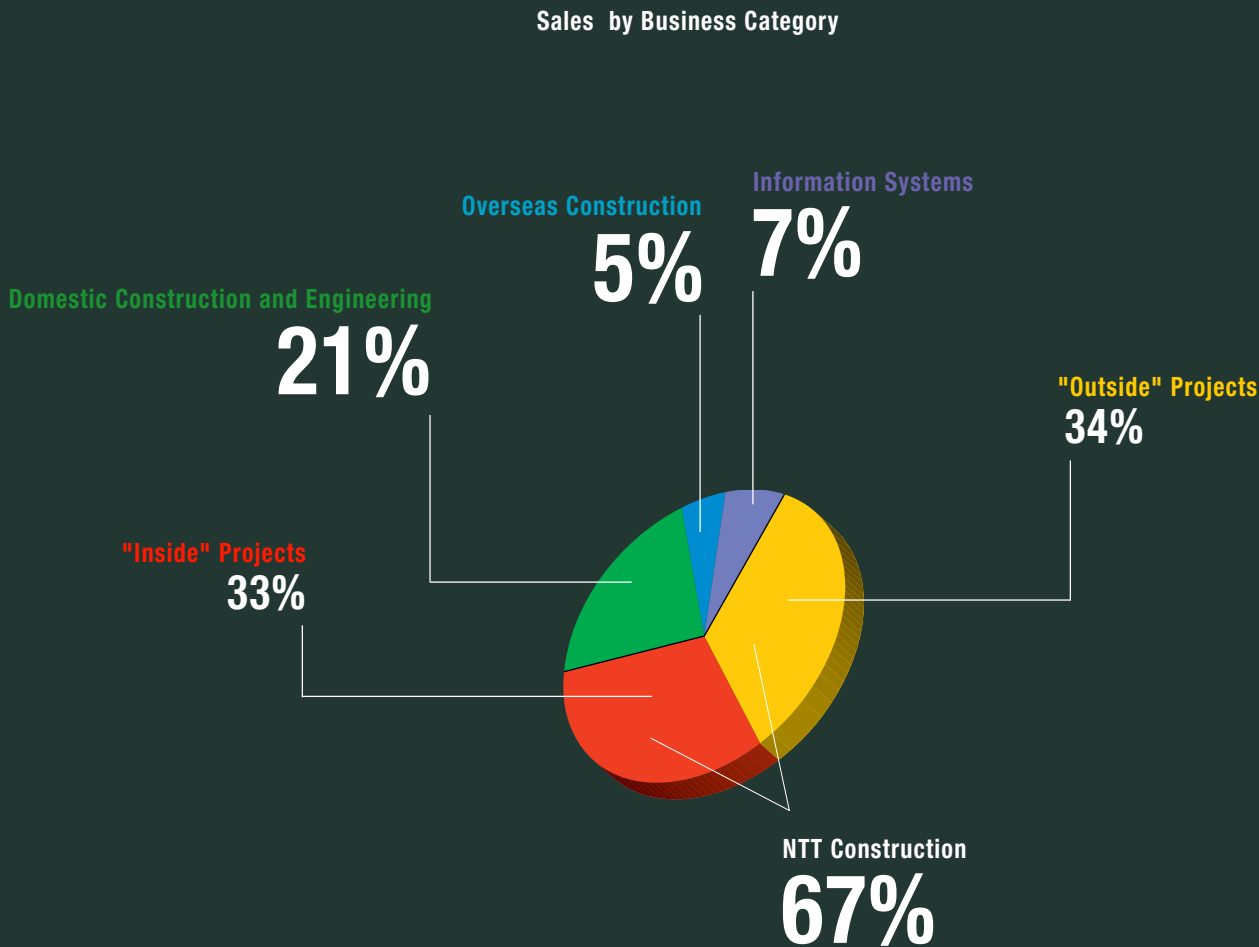
● Another of the Company's activities is supporting The Tokyo Philharmonic Orchestra, of which COMSYS is a special member.

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

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



REVIEW OF OPERATIONS



NTT CONSTRUCTION

● Our most important customers, NTT and the NTT Group, continue to face stiffening competition among telecommunications firms in the arenas of new services and costs. Looking forward to next year's reorganization, NTT is moving forward with increases in operational efficiency and competitiveness, and is making numerous preparations for expansion into a dynamic group fitted for the coming era of multimedia services.

● To move forward with ISO 9000 certification, quality control systems are being assessed, and the required quality control manuals prepared. The goal of the NTT Project Division is to attain certification by September 1998. A goal of January 1999 has been set for certification of the Kansai, Tohoku, and Tokai branches.

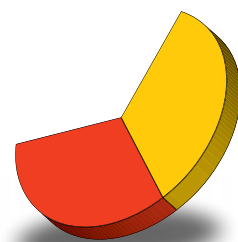
● In Kobe, the NTT Construction sector used its artificial ground-freezing technique to reroute underground phone lines to make way for the Kobe Municipal Subway. Operating at twelve degrees below freezing and twenty meters below ground level, we utilized the artificial ground-freezing technique for a total of approximately fifty meters. The scope of this project was unusually daring, and received a good deal of positive attention throughout the industry.

● The Company's technological expertise also contributed to the construction of the new Tokyo Bay Aqua Line expressway in Tokyo, which was opened in December 1997. COMSYS installed some 4,420 meters of optical cable for the expressway's network facilities. The Aqua Line

stretches for a total of 14 kilometers, from Chiba Harbor to Yokohama's Bay Bridge, passing en route the ultramodern Makuhari Messe Building and other examples of cutting-edge architecture. The panorama of these buildings has made the Aqua Line a magnet for sightseeing tourists and local residents, particularly at night.

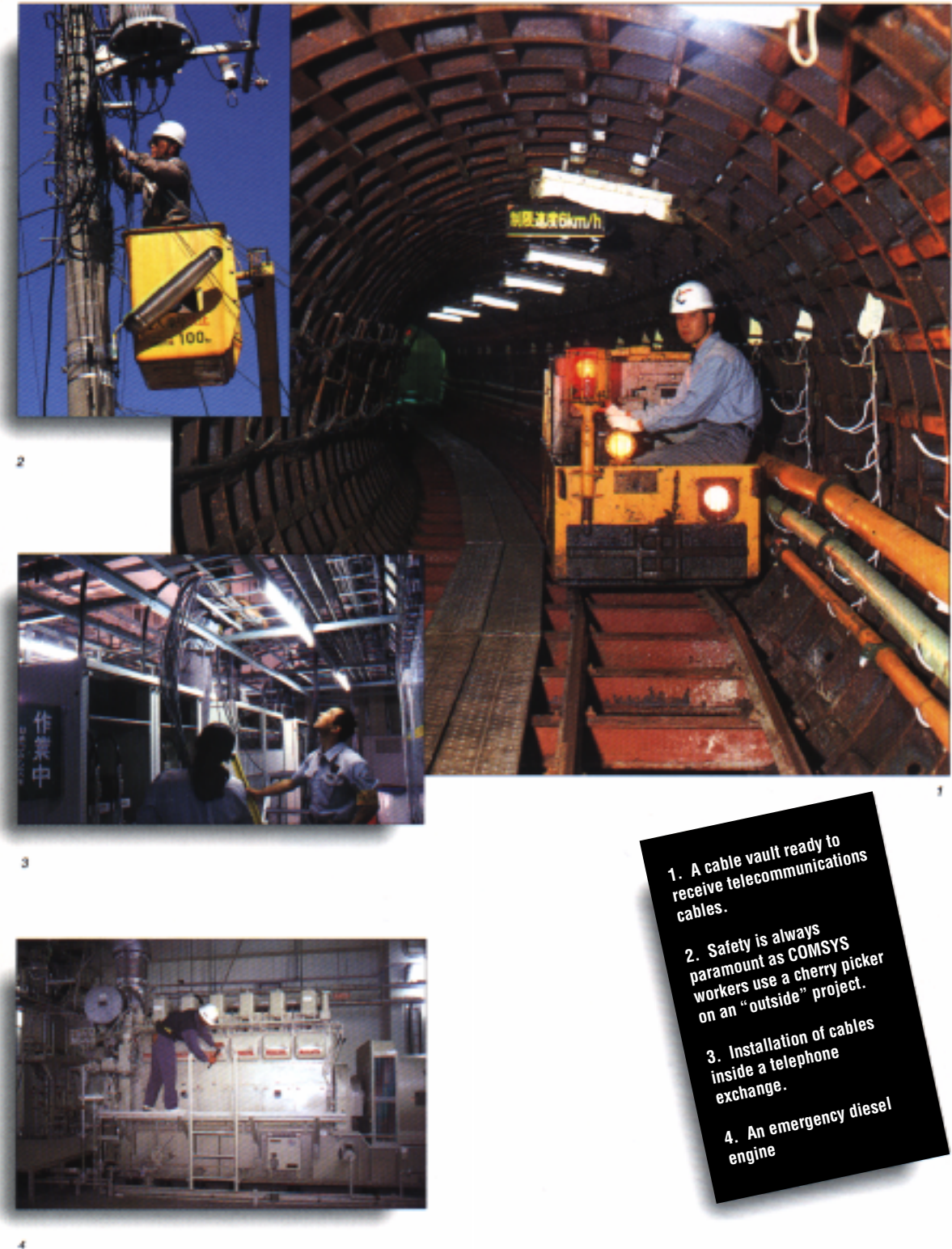
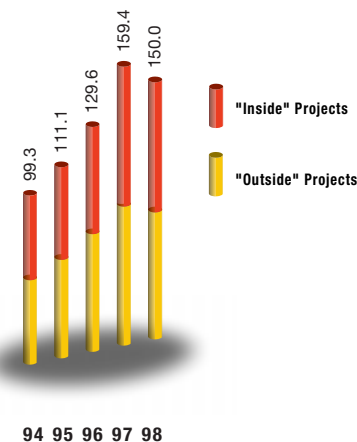
● COMSYS's NTT Construction sector is responding to the rapid technological advances of the multimedia era by striving to achieve the fusion of various technologies and by enhancing overall technological expertise. We have also pursued a vigorous effort to increase our contracts received. However, with a declining trend in new telephone subscriptions driving down capital spending in the industry, orders received in this sector declined 1 percent to ¥155.5 billion (US\$1,178 million), while the sector's construction revenues fell 5.9 percent to ¥150.0 billion (US\$1,136 million).

● During the coming term, we will be faced not only with the reorganization of NTT, but with worsening competition among telecommunications firms, including European and North American companies. The need for cost reductions in this industry is forecast to ratchet up yet another notch. In response, COMSYS will endeavor to increase its contracts received. To this end, we will enhance the efficiency of our operations, strengthen our subcontracting infrastructure, and foster competent technicians with expertise across a broad spectrum of multimedia technologies.



67%
of Total Revenue

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



1. A cable vault ready to receive telecommunications cables.

2. Safety is always paramount as COMSYS workers use a cherry picker on an "outside" project.

3. Installation of cables inside a telephone exchange.

4. An emergency diesel engine

DOMESTIC CONSTRUCTION AND ENGINEERING

● The Domestic Construction and Engineering sector handles projects for all domestic clients other than NTT and its group companies. This includes the national government, local governments, the NCCs, and other private firms. Operations center on telecommunications engineering projects, and include electrical facilities, structural-construction related work, "CC Box" (multi-use underground cable conduit) facilities, and a wide spectrum of other construction and engineering activities.

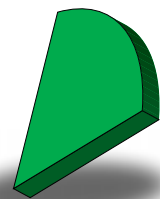
● As the conversion to multimedia computing and communications accelerates, in support of the high order, information-based society, telecommunications providers are expanding their facilities, and government agencies are constructing the required communications infrastructure. This market is expanding at a precipitous rate.

● Noteworthy among projects undertaken by the Company during this term were the Kurashiki Tivoli Park and the Nagano Olympic Ice Hockey Arena projects. Opened in July 1997, the Kurashiki Tivoli Park is a large theme park modeled after Denmark's Tivoli Park. Located in Kurashiki City, one of western Japan's premier tourist destinations, it lies along a canal near a row of warehouses and

godowns that date back to the Edo Period. COMSYS installed the park's communications equipment, and developed the multimedia software for the park's management and security computer system. COMSYS will also provide maintenance for these systems, and is one of the park's official sponsors.

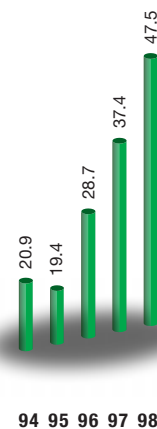
● Aqua Wing, the Nagano Olympic Ice Hockey Arena, is a 10,000-square-meter structure, three stories high and with one basement level, featuring a retractable arched roof. The city of Nagano entered into a comprehensive contract with COMSYS, and we acted as overall supervisor for subcontracting through to completion, while installing all communications and computer equipment for the entire facility at the same time. Since the end of the Olympics, Aqua Wing has been used as a swimming facility.

● The Company has designated CC Box, cable TV, LAN, and similar operations as strategic businesses, and is pursuing an energetic marketing program centered on these fields. This effort allowed us to post substantial gains in both orders received and net revenues.



21%
of Total Revenue

Sales of Domestic Construction
and Engineering (¥ Billions)



2



3



4



1. Telecommunications
equipment installation
inside the Tokyo Opera City
Tower.

2. Installing telecommu-
nications facilities at the
Tokyo Rainbow Bridge.

3. The 1998 Nagano Winter
Olympics Aqua Wing.

4. The Kurashiki Tivoli
Park, Opened in 1997.

INTERNATIONAL OPERATIONS

● COMSYS has engaged in an energetic and tightly directed program of expansion into overseas markets. The Company's initial overseas project, a 1964 contract for the laying of telecommunications trunk lines in Bangkok, Thailand, was only the first of many overseas projects in over 70 countries throughout Southeast Asia, the Middle East, Africa, and Latin America, most related to communications cables, civil engineering, switching, electric power, radio, and computerization.

● COMSYS offers a full range of services, ranging from consulting through planning, project execution, maintenance, and facilities operation. The Company had major projects under way this term in Thailand, the Philippines, Malaysia, and other countries throughout Southeast Asia. COMSYS is pleased and proud in this way to contribute to the development of the region's infrastructure.

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

● Malaysia is proceeding at a fevered pace with the construction of the world's most advanced mul-

timedia city, and Kuala Lumpur's Petronas Twin Towers is the showpiece of this movement. CMC Engineering SDN. BHD., our local subsidiary, installed the intelligent building system (IBS) in the Twin Towers, which are the world's tallest "intelligent" office buildings.

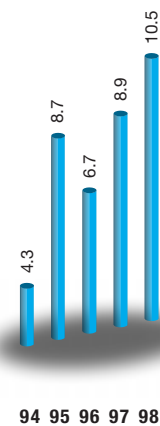
● Despite a vigorous effort to win contracts, the economic turmoil in Asia, including Thailand, Malaysia, and the Philippines, resulted in an 18.4 percent decline in orders received, to ¥9.4 billion (US\$71 million). However, net revenues, including revenues from contracts in hand at the beginning of the term, rose 18.1 percent to ¥10.5 billion (US\$80 million).

● Last December, COMSYS's Overseas Division achieved ISO-9001 certification. The ISO-9000 series is an international standard that certifies the reliability of a firm, and is highly regarded in Japan and throughout the world. With regard to overseas projects in particular, submission of ISO-9000 documents is a matter of course. In addition to the certification of the Overseas Division, COMSYS has established a companywide working group centered on the NTT Project Division and the Information & Communications Systems Division, to facilitate prompt ISO-9000 certification throughout the company. ISO-9000 certification will enhance the Company's reputation with its clients, and win a high level of trust. This will contribute to our goal of becoming known as a "leading company."



5%
of Total Revenue

Sales of Overseas
Construction
(¥ Billions)



2



3



4

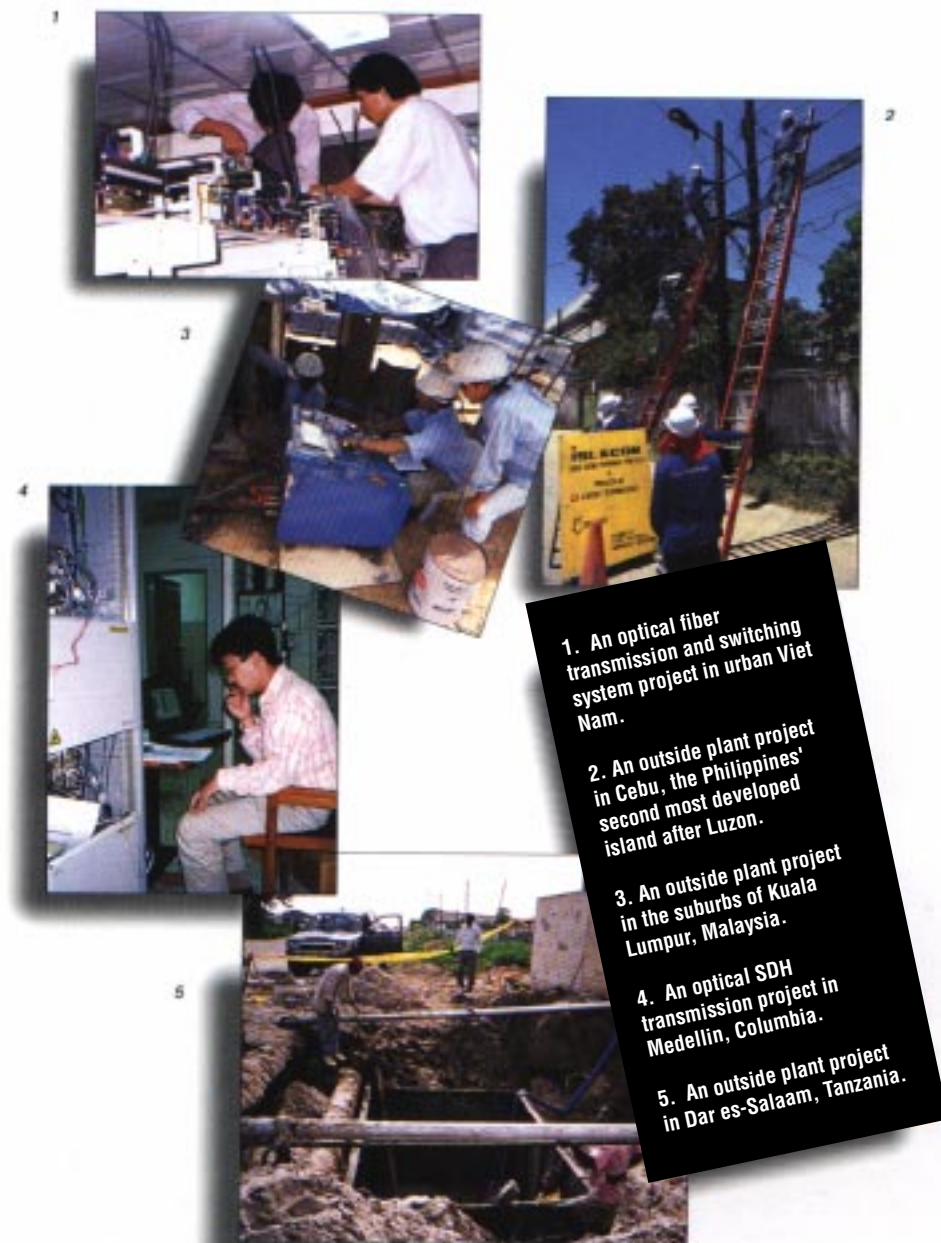


1

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

● Next term, poor economic conditions are forecast for Southeast Asia. In response, the local subsidiaries and joint ventures we have established throughout the region will cooperate with the Domestic Construction and Engineering sector,

utilizing that sector's accumulated technological expertise to pursue a full-scale "proposal-driven marketing" program. This is expected to allow us to achieve continued expansion of orders.



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 Farwaniyah Exchange
El Salvador	Installation of local telephone lines in La Preshita
Zambia	Rehabilitation of telephone cable network in Lusaka
Tanzania	Rehabilitation of telecommunications network in Dar es Salaam
Thailand	Seventh local cable network for TelecomAsia in Bangkok
Thailand	Seventh local cable network for TT&T in the provinces
Philippines	Supply and installation of local cable network for Majour Telecom Inc. in Mindanao
Philippines	Supply and installation of OSP equipment and optical fiber cable for ICC in Manila

Overseas Projects in Progress (As of June, 1998)

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

INFORMATION SYSTEMS

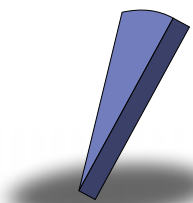
● The Information Systems sector offers software development services, and is engaged in the sale of office equipment. Clients include NTT and NEC, as well as national and local government agencies.

● The office equipment market was hurt by the increase in the national consumption tax from three to five percent, which caused sluggish consumer spending. In addition, competition from volume retailers and other sales outlets has continued to worsen. In these difficult conditions, the fighting for market share grows more intense.

● In our software development operations we offer everything from small utilities to total software solutions, depending on the individual customer's requirements. Comprehensive systems integration and network construction are pillars of the Information Systems sector's operations. Development of systems and software, underpinned by wide-ranging technological expertise, form the backdrop for vigorous marketing programs that have produced solid performance. As a result, the sector overall turned in stronger results this term than in the previous fiscal year.

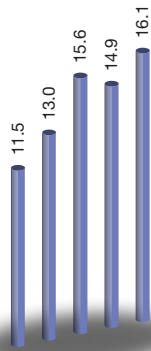
● This term the sector introduced its WINE-Dream network kit, which enabled us to expand our network sales operations nationwide. The WINE-Dream network kit includes complete LAN or WAN hardware and software at low cost. Sales operations are targeted at new customers, chiefly small and medium-sized firms with 300 or fewer employees. Nationwide, this group represents a potential market for six million LAN systems, but because of costs and lack of trained personnel, the permeation of LAN or WAN systems is much lower among this group than among large firms. WINE is an acronym for Windows ISDN Networking. Utilizing NTT's communications infrastructure, Microsoft's basic operating system, and network software, the small or medium-sized company can easily build a network. We expect that this product will allow us to make significant inroads into this potentially huge market.

● We will continue to expand our software development operations in the coming term, including network systems and office equipment sales. We will bend all our efforts to increasing orders received, by anticipating multimedia-driven customer requirements.

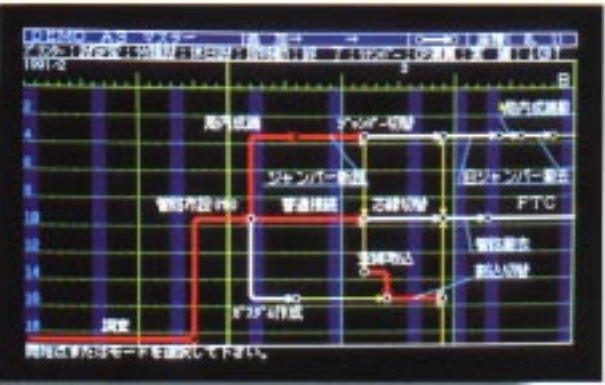
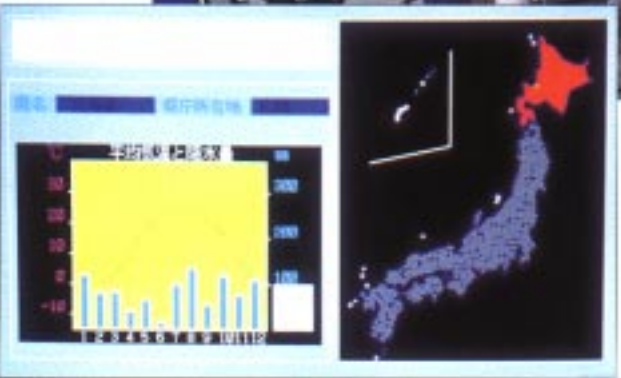


7%
of Total Revenue

Sales of Information
Systems (¥ Billions)



94 95 96 97 98



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

BOARD OF DIRECTORS AND AUDITORS
As of June 26, 1998



Chairman of the Board
Shozo Iwasaki



President
Hironobu Takeuchi



Executive Vice President
Koichi Kinoshita



Executive Vice President
Ryuichi Arano



Managing Director
Kiyoto Kuwabara



Managing Director
Michiaki Ono



Managing Director
Koji Miyata



Managing Director
Isao Iijima



Managing Director
Takuo Sue



Managing Director
Takaaki Okayama



Managing Director
Yasunobu Sasaki



Managing Director
Ko Tamai

Directors

Masahide Kajiyama
Kensuke Yabuki
Katsuhiko Tanikawa
Tadashi Matsumoto
Tatsuya Sato
Kyoichi Suzuki

Syotaro Chikamoto
Masayuki Nose
Yoichi Chiba
Kenji Kondo

Standing Auditors

Takashi Kato
Masaharu Ogawa

Auditors

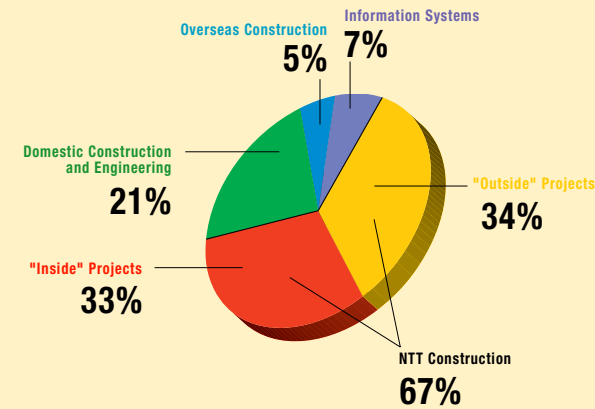
Yuzo Hashimoto
Sadanori Okada

FINANCIAL SECTION



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

FINANCIAL REVIEW



Sales by Business Category
Nippon COMSYS Corporation

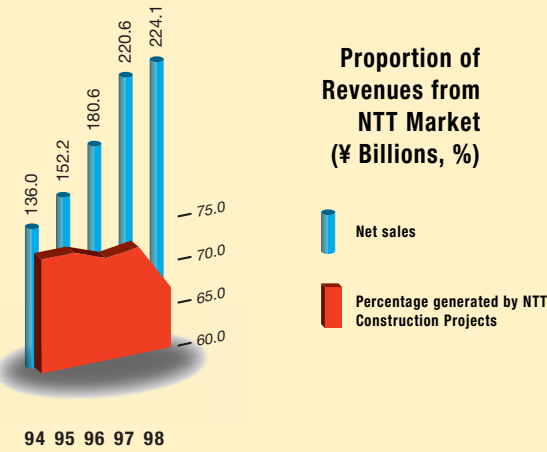
	Millions of yen					Thousands of U.S. dollars
	1994	1995	1996	1997	1998	1998
Construction Business						
NTT Construction	¥ 99,297	¥111,053	¥129,613	¥159,387	¥149,997	\$1,136,341
Domestic Construction Engineering	20,944	19,392	28,706	37,415	47,476	359,667
Overseas Construction	4,274	8,729	6,697	8,925	10,545	79,886
Other Business						
Information Systems	11,522	13,039	15,613	14,863	16,085	121,856
Total	¥136,037	¥152,213	¥180,629	¥220,590	¥224,103	\$1,697,750

Note: Yen figures have been converted from U.S. dollars at the rate of ¥132.00=US\$1, rounded, for convenience only, from an approximate exchange rate of ¥132.10 to the dollar on March 31, 1998.

• Revenues •

Japan drifted deeper into the economic doldrums in fiscal 1997. Consumer spending remained weak, as did private sector capital investment. Japan's troubled financial industry struggled to come to grips with the problem of non-performing and defaulted loans, precipitated by asset devaluation. The severe problems in other Asian economies further complicated matters. Japan's securities markets, of course, reflected the lack of confidence fostered by these conditions. In the face of this persistent recession, Nippon COMSYS was able to achieve 1.6 percent growth in net sales, which rose to ¥224,103 million (US\$1,698 million).

Revenues in the NTT construction sector declined 5.9 percent from last term's five-year high, to ¥149,997 million (US\$1,136 million). This is 67 percent of the Company's total revenues, down from 72 percent in the previous term. "Outside" projects accounted for ¥75,658 million (US\$573 million) of this, and "inside" projects for ¥74,339 million (US\$563 million).



The domestic construction and engineering sector posted growth in net sales of 26.9 percent to ¥47,476 million (US\$360 million). This is the third consecutive year of double-digit sales growth in this sector, showing the effectiveness of our efforts to expand non-NTT operations. Sales in the overseas construction sector rose 18.2 percent to ¥10,545 million (US\$80 million). After a 4.8 percent decline in the previous term, the information systems sector achieved 8.2 percent sales growth, to ¥16,085 million (US\$122 million).

• Results of Operations •

Cost of sales as a percentage of sales edged up slightly to 87.6 percent, but this slight increase was sufficient to produce a 0.2 percent decrease in gross profit, which slid to ¥27,838 million (US\$211 million). We achieved a reduction in selling, general, and administrative expenses, which were cut 3.7 percent to ¥13,777 million (US\$104 million). As a percentage of gross profit, SGA fell to 49.5 percent, continuing the long-term trend of improvement in this figure. This allowed operating income to rise 3.5 percent to ¥14,061 million (US\$107 million).

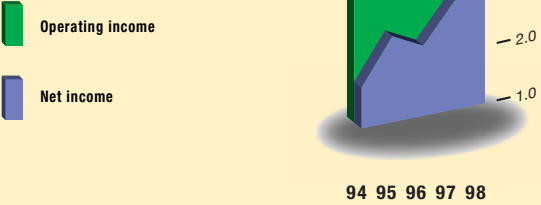
Income before income taxes grew at a similar pace, rising 4.8 percent to ¥14,041 million (US\$106 million). This was less than the 65.6 percent jump seen in the previous term, but in view of economic conditions we regard it as an achievement. The effective income tax rate was 45.8 percent, down slightly from last term's 53.2 percent. Thus, net income rose 21.5 percent to ¥7,611 million (US\$58 million), and net income per share increased 12.3 percent to ¥60.96 (US\$0.46). Dividends were raised from last year's ¥11.75 to ¥14.25 (US\$0.11).

• Financial Position •

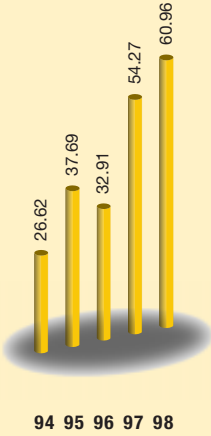
Cash and time deposits rose by 26.9 percent during this term, growing to ¥26,871 million (US\$204 million), and marketable securities investments were increased by 11.0 percent to ¥17,106 million (US\$130 million). The accumulated cost of construction in progress shrank 14.5 percent to ¥15,707 million (US\$119 million). Notes and accounts receivable edged down 2.2 percent to ¥56,817 million (US\$430 million). Despite declines in every other category, the increase in cash and time deposits was sufficient to produce 2.9 percent growth in current assets, which rose to ¥117,660 million (US\$891 million).

The Company achieved a 16.8 percent reduction in current liabilities, which declined to ¥47,740 million (US\$362

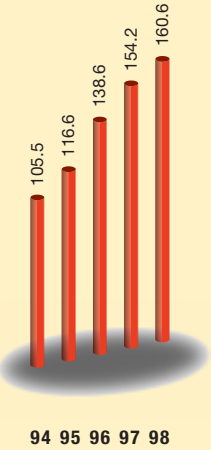
Operating Income and Net Income as Percent of Revenues (%)

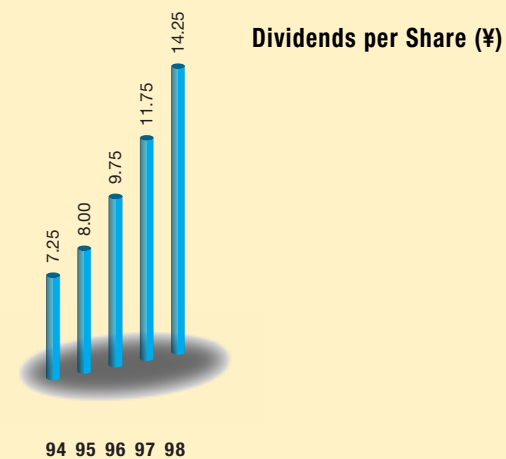
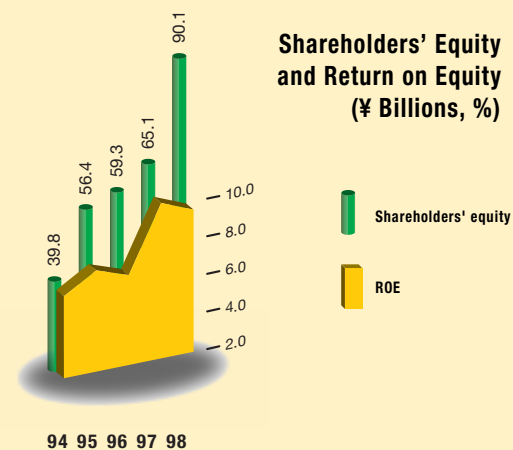


Net Income per Share (¥)



Total Assets (¥ Billions)





million). This was primarily due to reductions in trade payables, current portion of notes with warrants, and income taxes payable, although improvements were recorded in every category. As a result of the foregoing, the current ratio rose from 2.0 in the previous term to 2.5.

On the heels of a 36.2 increase in the previous fiscal year, this term saw investments and other assets rise a further 21.5 percent to ¥15,480 million (US\$117 million). Total property and equipment again remained on its increasing trend, rising 3.3 percent to ¥27,123 million (US\$205 million), after depreciation. These factors allowed total assets to grow by 4.1 percent to ¥160,561 million (US\$1,216 million). Shareholders' equity jumped 38.4 percent to ¥90,101 million (US\$683 million). This was primarily the result of the conversion of convertible bonds to common stock, the exercise of warrants issued with notes, and the growth of retained earnings.

• Cash Flows •

Net income grew 21.5 percent, but net cash provided by operating activities showed disproportionate improvement, rising from last term's negative ¥1,832 million to ¥6,728 million (US\$51 million). After plunging by more than 50 percent in the previous fiscal year, net cash used in investing activities dropped a further 20.4 percent to ¥5,293 million (US\$40 million).

Proceeds from issuance of convertible bonds fell from ¥10,000 million in the previous year to zero, while proceeds from exercise of warrants multiplied five-fold, rising from ¥335 million last term to ¥18,083 million (US\$137 million) in the current fiscal year. Redemption of notes with warrants, at ¥9,867 million (US\$75 million) was 40.6 percent from the previous year's total. However, this was not sufficient to offset the increase in proceeds from exercise of warrants, and net cash provided by financing activities more than doubled, rising to ¥5,960 million (US\$45 million). Cash and cash equivalents increased 20.2 percent to ¥43,977 million (US\$333 million).

Nippon COMSYS Corporation SELECTED FINANCIAL AND OPERATING DATA Years ended March 31, 1994, 1995, 1996, 1997 and 1998

	Millions of yen					Thousands of U.S. dollars
	1994	1995	1996	1997	1998	1998
Results of Operations:						
Net sales	¥136,037	¥152,213	¥180,629	¥220,590	¥224,103	\$1,697,750
Operating income	5,698	7,042	8,544	13,582	14,061	106,523
Income before income taxes	5,759	7,127	8,092	13,397	14,041	106,371
Net income	2,419	3,637	3,742	6,267	7,611	57,659
Financial Position:						
Total assets	¥105,450	¥116,617	¥138,610	¥154,246	¥160,561	\$1,216,371
Property and equipment	15,866	17,664	24,814	26,247	27,123	205,477
Long-term debt	17,742	25,082	24,995	25,128	16,791	127,204
Shareholders' equity	39,821	56,395	59,277	65,096	90,101	682,583
Per Share of Common Stock (in yen and dollars):						
Net income	¥ 26.62	¥ 37.70	¥ 32.91	¥ 54.27	¥ 60.96	\$ 0.46
Cash dividends	7.25	8.00	9.75	11.75	14.25	0.11
Shareholders' equity	428.19	539.08	514.90	562.23	690.67	5.23
Financial Ratios:						
Operating income to net sales	4.19%	4.63%	4.73%	6.16%	6.27%	
Net income to net sales	1.78	2.39	2.07	2.84	3.40	
Capital ratio	37.8	48.4	42.8	42.2	56.1	
Return on equity	6.8	7.6	6.5	10.1	9.8	
Other Statistics:						
New orders received during the year	¥135,762	¥143,034	¥186,180	¥225,147	¥234,877	\$1,779,371
Contract backlog at end of the year	56,755	47,576	53,127	57,684	68,458	518,621
Common stock price range (in yen):						
High	¥1,570	¥1,280	¥1,450	¥1,560	¥2,020	
Low	930	1,180	980	1,190	1,240	

Note: Yen figures have been converted from U.S. dollars at the rate of ¥132.00=US\$1, rounded, for convenience only, from an approximate exchange rate of ¥132.10 to the dollar on March 31, 1998.

Nippon COMSYS Corporation
NON-CONSOLIDATED BALANCE SHEETS
As of March 31, 1997 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
ASSETS	1997	1998	1998
Current Assets:			
Cash and time deposits	¥ 21,171	¥ 26,871	\$ 203,568
Marketable securities (Note 3)	15,411	17,106	129,591
Notes and accounts receivable-trade	58,091	56,817	430,432
Inventories:			
Accumulated cost of construction in progress	18,375	15,707	118,992
Other	276	262	1,985
Other current assets	1,169	1,025	7,765
Less: Allowance for doubtful receivables	(131)	(128)	(969)
Total current assets	114,362	117,660	891,364
Investments and Other Assets:			
Investment securities:			
Subsidiaries and affiliates	1,053	1,490	11,288
Other (Note 3)	4,985	6,293	47,674
Long-term loans receivable:			
Subsidiaries and affiliates	356	219	1,659
Other	2,769	3,032	22,970
Other assets	3,597	4,464	33,818
Less: Allowance for doubtful receivables	(20)	(18)	(136)
Total investments and other assets	12,740	15,480	117,273
Property and Equipment:			
Land	16,320	16,452	124,636
Buildings and structures	10,523	10,554	79,955
Machinery and equipment	7,709	7,887	59,750
Construction in progress	21	1,513	11,462
Less: Accumulated depreciation	(8,326)	(9,283)	(70,326)
Total property and equipment	26,247	27,123	205,477
Deferred Charges:			
Discount on notes payable	897	298	2,257
Total deferred charges	897	298	2,257
	¥154,246	¥160,561	\$1,216,371

See Notes to the Non-Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
LIABILITIES AND SHAREHOLDERS' EQUITY	1997	1998	1998
Current Liabilities:			
Short-term bank loans (Note 4)	¥ 440	¥ —	\$ —
Current portion of notes and notes with warrants (Note 4)	9,867	7,755	58,750
Accounts payable:			
Trade	29,108	26,898	203,773
Other	2,228	2,398	18,167
Advances received on construction in progress	4,372	3,586	27,167
Income taxes payable	6,195	3,535	26,780
Warrants	2,351	1,291	9,780
Other current liabilities	2,827	2,277	17,250
Total current liabilities	57,388	47,740	361,667
Long-Term Liabilities:			
Notes (Note 4)	15,128	7,373	55,856
Convertibles bonds (Note 4)	10,000	9,418	71,348
Accrued severance indemnities	6,161	5,876	44,515
Other long-term liabilities	473	53	402
Total long-term liabilities	31,762	22,720	172,121
Contingent Liabilities (Note 5)			
Shareholders' Equity (Note 6):			
Common stock, par value ¥50 per share:			
Authorized			
— 250,000 thousand shares			
Issued			
— 115,782 thousand shares (31st March, 1997)	17,250	—	—
— 130,453 thousand shares (31st March, 1998)	—	26,592	201,454
Additional paid-in capital	14,521	24,904	188,667
Legal reserve	1,271	1,511	11,447
Retained earnings	32,054	37,094	281,015
Total shareholders' equity	65,096	90,101	682,583
	¥154,246	¥160,561	\$1,216,371

Nippon COMSYS Corporation
NON-CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 1997 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1997	1998	1998
Net Sales:			
Construction contracts	¥205,727	¥208,018	\$1,575,894
Other	14,863	16,085	121,856
	220,590	224,103	1,697,750
Cost of Sales:			
Construction contracts	179,917	182,819	1,384,992
Other	12,783	13,446	101,864
	192,700	196,265	1,486,856
Gross profits	27,890	27,838	210,894
Selling, General and Administrative Expenses	14,308	13,777	104,371
Operating income	13,582	14,061	106,523
Other Income (Expenses):			
Interest and dividend income	541	737	5,583
Interest expenses	(7)	(7)	(53)
Other, net (Note 7)	(719)	(750)	(5,682)
	(185)	(20)	(152)
Income before Income Taxes	13,397	14,041	106,371
Income Taxes (Note 8)	7,130	6,430	48,712
Net Income	¥ 6,267	¥ 7,611	\$ 57,659

	Yen		U.S. dollars (Note 2)
Per Share:			
Net income	¥54.27	¥ 60.96	\$0.46
Cash dividends	11.75	14.25	0.11

See Notes to the Non-Consolidated Financial Statements.

Nippon COMSYS Corporation
NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years ended March 31, 1997 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1997	1998	1998
Common Stock:			
Beginning of period	¥16,895	¥17,250	\$130,682
Add:			
Conversion of convertible bonds	187	291	2,205
Exercise of warrants	168	9,051	68,568
End of period	¥17,250	¥26,592	\$201,455
Additional Paid-in Capital:			
Beginning of period	¥14,122	¥14,521	\$110,008
Add:			
Conversion of convertible bonds	187	291	2,205
Exercise of warrants	212	10,092	76,454
End of period	¥14,521	¥24,904	\$188,667
Legal Reserve:			
Beginning of period	¥ 1,141	¥ 1,271	\$ 9,629
Add:			
Transfer from retained earnings	130	240	1,818
End of period	¥ 1,271	¥ 1,511	\$ 11,447
Retained Earnings:			
Beginning of period	¥27,119	¥32,054	\$242,833
Add/(deduct):			
Net income	6,267	7,611	57,659
Transfer to legal reserve	(130)	(240)	(1,818)
Cash dividends	(1,122)	(2,256)	(17,091)
Bonuses to directors	(80)	(75)	(568)
End of period	¥32,054	¥37,094	\$281,015

See Notes to the Non-Consolidated Financial Statements.

Nippon COMSYS Corporation
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 1997 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1997	1998	1998
Cash Flows from Operating Activities:			
Net income	¥ 6,267	¥ 7,611	\$ 57,659
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,135	2,221	16,826
Provision for accrued severance indemnities, less payments	(444)	(285)	(2,159)
Changes in assets and liabilities			
Notes and accounts receivable-trade	(16,420)	1,274	9,652
Inventories	(1,426)	2,681	20,311
Other current assets	123	144	1,091
Accounts payable	6,887	(2,040)	(15,455)
Advances received on construction in progress	(885)	(786)	(5,955)
Income tax payable	2,546	(2,660)	(20,151)
Other liabilities	(107)	(550)	(4,167)
Other, net	(508)	(882)	(6,682)
Net cash provided by operating activities	(1,832)	6,728	50,970
Cash Flows from Investing Activities:			
Expenditure for property and equipment	(3,246)	(2,555)	(19,356)
(Increase) decrease in investments and other assets	(3,402)	(2,738)	(20,742)
Net cash used in investing activities	(6,648)	(5,293)	(40,098)
Cash Flows from Financing Activities:			
Proceeds from issuance of convertible bonds	10,000	—	—
Proceeds from exercise of warrants	335	18,083	136,992
Redemption of notes with warrants	(7,016)	(9,867)	(74,750)
Cash dividends paid	(1,122)	(2,256)	(17,091)
Net cash provided by financing activities	2,197	5,960	45,151
Net Increase (Decrease) in Cash and Cash Equivalents	(6,283)	7,395	56,023
Cash and Cash Equivalents at Beginning of Year	42,865	36,582	277,136
Cash and Cash Equivalents at End of Year	¥36,582	¥43,977	\$333,159

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for:			
Interest	¥ 678	¥ 485	\$ 3,674
Income taxes	6,526	10,860	82,273
Conversion of long-term debt to common stock	374	582	4,409

See Notes to the Non-Consolidated Financial Statements.

Nippon COMSYS Corporation
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

(a) Basis of presenting non-consolidated financial statements

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

(b) Point of sales—construction contracts

Construction contracts of the Company are accounted for by the “completed contract method” under which “net sales” are recognized when the contracts are completed. The accumulated cost of uncompleted construction is shown as “accumulated cost of construction in progress” and the related billings (advances received) on uncompleted construction contracts are shown as “advances received on construction in progress” in the accompanying balance sheets.

(c) Accumulated cost of construction in progress

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

(d) Marketable securities and investment securities

Marketable securities (current) and investment securities (non-current) listed on stock exchanges (excluding securities trading on over-the-counter markets) are stated at the lower of cost or market, cost being determined by the periodic average method. Other securities without market quotations on stock exchanges and investments in subsidiaries and affiliates are stated at cost, determined by the periodic average method.

(e) Inventories

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

(f) Depreciation

Depreciation of property and equipment is computed on the declining balance method, as prescribed by Japanese income tax laws, using estimated useful lives of assets principally as follows:

Buildings and structures	8 to 65 years
Machinery and equipment	3 to 10 years

(g) Allowance for doubtful receivables

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

(h) Accrued severance indemnities

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

On 1st February, 1997, the Company established a contributory trustee employee pension fund, composed of a portion covering the benefits for the severance indemnities and another portion covering social security benefits, to which the Company and employees make contributions.

The Company’s policy for severance indemnities benefits is to contribute and charge to income normal costs as accrued on the basis of an accepted actuarial method and prior service costs as amortized over 20 years.

The assets of the funds for the severance indemnities benefits at 31st March, 1998 were ¥17,653 million (U.S.\$133,735 thousand).

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

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

(i) Warrants and discount on notes payable

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

(j) Income taxes

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

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

(k) Net income and cash dividends per share

The computations of net income per Share shown in the non-consolidated statements of income are based on the weighted average number of Shares in issue during the period. The number of Shares used for computing net income per Share was 115,480 thousand and 124,860 thousand Share for the two years in the period ended 31st March, 1998, respectively. Cash dividends per Share are based on the cash dividends paid in respect to the relevant period.

(l) Cash flow information

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

2. U.S. Dollar Amounts

The accounts of the Company are maintained in Japanese yen. The accompanying non-consolidated financial statements have been presented in Japanese yen and have also been presented in U.S. dollars by translating all Japanese yen amounts using the rate of ¥132.00=U.S.\$1. The presentation of such dollar amounts is solely for the convenience of the readers and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at that or at any other rate.

3. Market Value Information of Securities

At 31st March, 1997 and 1998, book value and market value of marketable securities and investment securities, as to which market value information is required to be disclosed, were as follows:

31st March	Millions of yen				Thousands of U.S. dollars	
	1997		1998		1998	
	Book value	Market value	Book value	Market value	Book value	Market value
Marketable securities:						
Stocks	¥ 2	¥ 2	¥ 4	¥ 4	\$ 30	\$ 30
Bonds and others	5,500	5,761	3,000	3,064	22,727	23,212
Investment securities:						
Stocks	1,341	3,771	1,530	3,841	11,591	29,099
Bonds	1,127	1,184	1,629	1,735	12,341	13,144
Others	349	317	651	603	4,932	4,568
	¥8,319	¥11,035	¥6,814	¥9,247	\$51,621	\$70,053

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

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

At 31st March, 1997 and 1998, long-term debt consisted of the following:

31st March	Millions of yen		Thousands of U.S. dollars	
	1997	1998	1998	
1.125 per cent. U.S. dollar notes due 1998 with warrants	¥ 9,867	¥ —	\$ —	
3.750 per cent. U.S. dollar notes due 1999	7,755	7,755	58,750	
0.5 per cent. Swiss franc notes due 1999	7,373	7,373	55,856	
0.3 per cent. yen unsecured convertible bonds due 2003	10,000	9,418	71,348	
	¥34,995	¥24,546	\$185,954	
Current portion	9,867	7,755	58,750	
	¥25,128	¥16,791	\$127,204	

Convertible bonds

At 31st March, 1998, unsecured convertible bonds consisted of the following:

The original amount issued at 24th, June, 1996	¥10,000 million
Balance as at 31st March, 1998	¥9,418 million
Interest rate	0.3%
Maturity date	31st March, 2003
Conversion period:	
On and after	1st August, 1996
Up to and including	28th March, 2003
Conversion price:	
At 31st March, 1998	¥1,435 (U.S.\$10.87)

The number of shares of common stock required for conversion of the above unsecured convertible bonds outstanding at 31st March, 1998 at the current conversion price would have been approximately 6,563 thousand.

Notes, warrants

At 31st March, 1998, notes consisted of the following:

	Notes(*1)	Notes(*1)
	US\$100,000,000	SF100,000,000
Date of issue	30th March, 1995	7th September, 1995
Interest rate	3.750%	0.5%
Maturity date	30th March, 1999	7th September, 1999
Warrants exercisable:		
On and after	10th April, 1995	21st September, 1995
Up to and including	16th March, 1999	31st August, 1999
Subscription price:		
At 31st March, 1998	¥1,146.4 (U.S.\$8.68)	¥1,353.00 (U.S.\$10.25)

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

The number of shares of common stock required for exercising of the above warrants remaining unexercised at 31st March, 1998 at the current subscription prices would have been approximately 6,974 thousand.

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

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

5. Contingent Liabilities

At 31st March, 1997 and 1998, contingent liabilities consisted of the following:

31st March	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Guarantee of loans borrowed by:			
Thai COMSYS and Jackson Co.,Ltd.	¥ 5,252	¥ 3,081	\$ 23,341
Thai Telecommunications Engineering Co.,Ltd.	4,510	4,082	30,924
COMSYS-TTEC J.V.	4,595	2,841	21,523
Jackson-COMSYS J.V.	2,379	1,435	10,871
COMSYS Philippines, Inc.	1,350	1,357	10,280
Other	581	497	3,765
	¥18,667	¥13,293	\$100,704

6. Shareholders’ Equity

The Commercial Code of Japan (the “Commercial Code”) provides that an amount of not less than 10 per cent. of the amount of cash dividends and bonuses to directors paid be appropriated as legal reserve until such reserve equals 25 per cent. of common stock. This reserve is not available for dividends but may, subject to shareholders’ approval, be used to reduce deficits or may be capitalized subject to a resolution of the Board of Directors.

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

7. Other Income and Expenses

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

Years ended 31st March	Millions of yen		Thousands of U.S. dollars
	1997	1998	1998
Write-down of investment securities	¥ (19)	¥ (88)	\$ (667)
Amortization of discounts on note premium	(599)	(599)	(4,538)
Expenses on issue of unsecured convertible bonds	(240)	—	—
Other	139	(63)	(477)
	¥(719)	¥(750)	\$ (5,682)

8. Income Taxes

The Company is subject to several Japanese taxes based on income which, in the aggregate, resulted in normal statutory tax rates of approximately 52 per cent. for each of the two years in the period ended 31st March, 1998.

The effective tax rates in the non-consolidated statements of income differ from the normal statutory tax rates due to such items as permanently non-deductible expenses and timing differences in recognizing certain income and expense items for financial and tax reporting purposes.

9. Subsequent Event

On 26th June, 1998, the shareholders of the Company approved the following appropriations of retained earnings:

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥946	\$7,167
Transfer to legal reserve	110	833
Bonuses to directors	95	720

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS




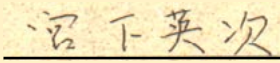
8TH FLOOR NO.10 MORI BUILDING
1-18-1 TORANOMON MINATO-KU
TOKYO 105-0001 JAPAN

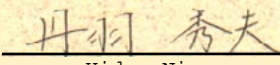
To the Board of Directors,
Nippon COMSYS Corporation

We have examined the non-consolidated balance sheets of Nippon COMSYS Corporation as of 31st March, 1997 and 1998, and the related non-consolidated statements of income, shareholders' equity and cash flows for each of the two years in the period ended 31st March, 1998, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying non-consolidated financial statements present fairly the financial position of Nippon COMSYS Corporation at 31st March, 1997 and 1998, and the results of its operations and cash flows for each of the two years in the period ended 31st March, 1998, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.


Masatoshi Yoshino


Eiji Miyashita


Hideo Niwa

Tokyo, Japan
26th June, 1998

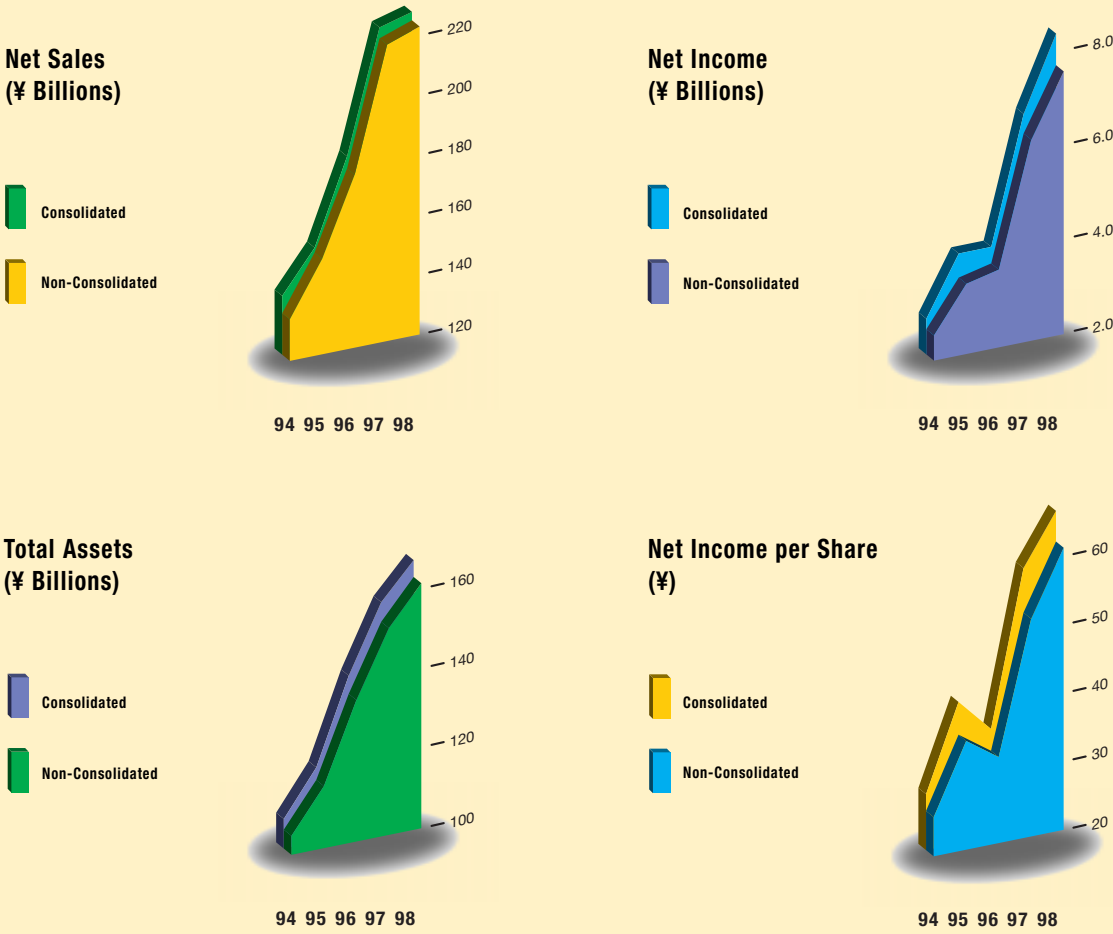
Certified Public Accountants

SUMMARY OF CONSOLIDATED PERFORMANCE

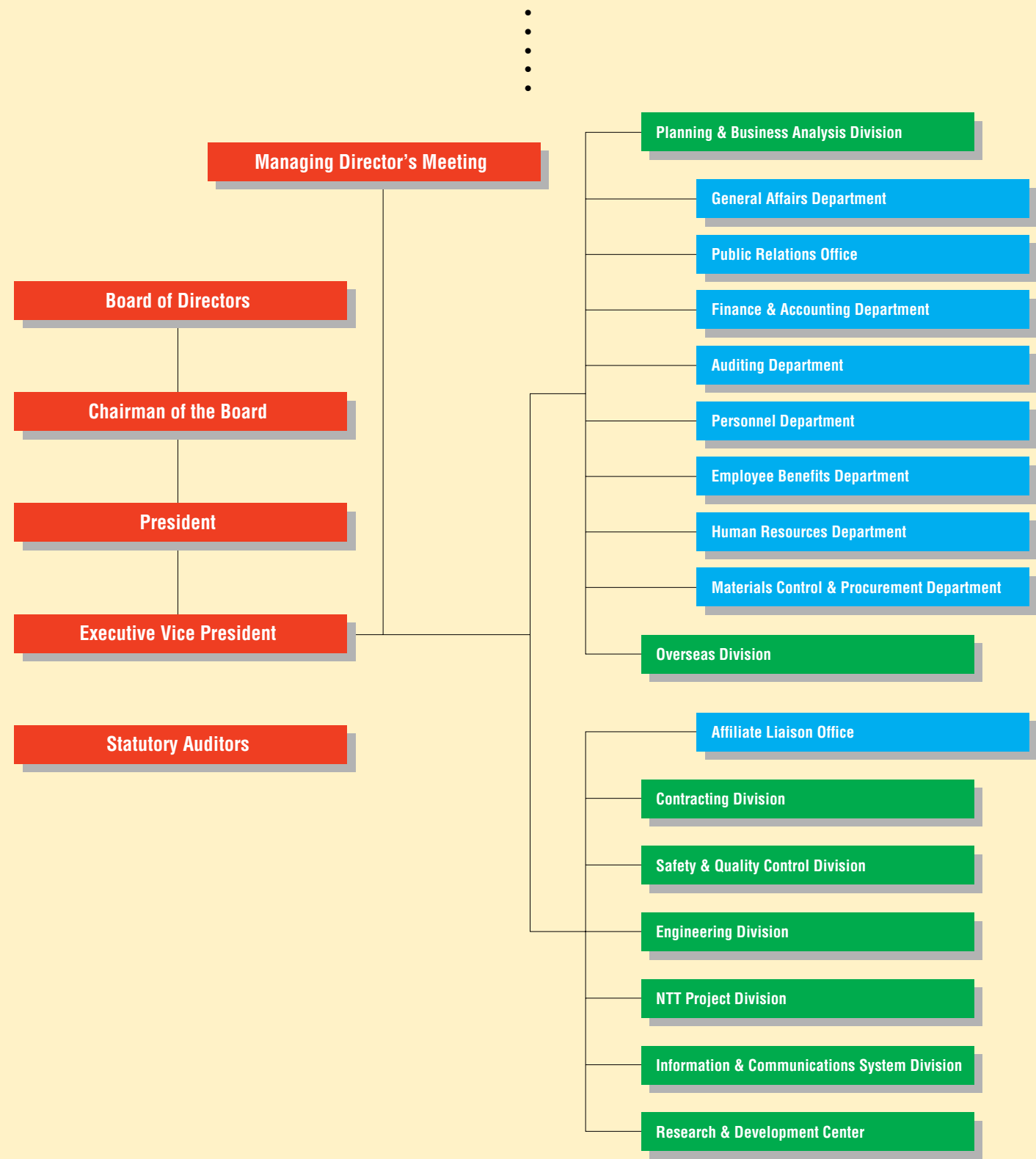
Nippon COMSYS Corporation and Consolidated Subsidiaries
Years ended March 31, 1997 and 1998

	Millions of yen		Thousands of U.S. dollars	Change (%)
	1997	1998	1998	
Net sales	¥221,636	¥225,313	\$1,706,917	1.7%
Operating income	13,733	14,348	108,697	4.5%
Net income	6,831	8,309	62,947	21.6%
Total assets	158,839	166,067	1,258,083	4.6%
Shareholders' equity	68,979	94,654	717,076	37.2%
	Yen		U.S. dollars	
Per share:				
Net income	¥59.15	¥66.55	\$0.50	12.5%
Cash dividends	11.75	14.25	0.11	21.3%

Note: Yen figures have been converted from U.S. dollars at the rate of ¥132.00=US\$1, rounded, for convenience only, from an approximate exchange rate of ¥132.10 to the dollar on March 31, 1998.



ORGANIZATION CHART
As of July 1, 1998



CORPORATE INFORMATION
As of March 31, 1998

•
•
•
•
•

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

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

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

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

Establishment:
1951

Paid in Capital:
¥26,591 million

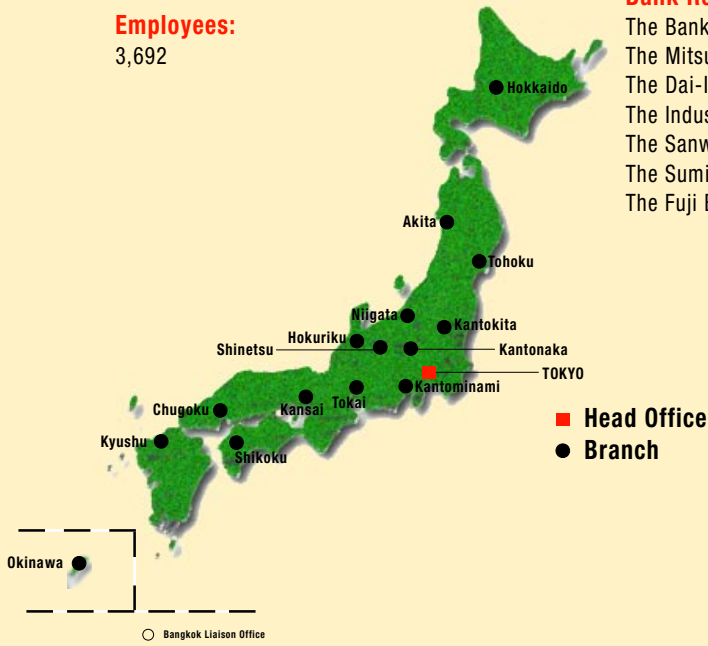
Stock listings:
Common stock-Tokyo, Osaka

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

Employees:
3,692

Main Clients:
Nippon Telegraph and Telephone Corporation (NTT)
Kokusai Denshin Denwa Co., Ltd. (KDD)
DDI Corporation
Tokyo Telecommunication Network Co., Inc.
Sharp Corporation
Japan Highway Public Corporation
RECRUIT Co., Ltd.
The Tokyo Electric Power Co., Inc.
Fuji Xerox Co., Ltd.
The Furukawa Electric Co., Ltd.
Sumitomo Electric Industries, Ltd.
Fujikura Ltd.
Hitachi Cable, Ltd.
NEC Corporation
Fujitsu Limited
Mitsubishi Corporation
Marubeni Corporation
Mitsui & Co., Ltd.
Sumitomo Corporation
Lucent Technologies
Telephone Organization of Thailand (Thailand)
Ministry of Communications (Kuwait)
TelecomAsia Corporation Public Co., Ltd. (Thailand)
Thai Telephone & Telecommunication Public Co., Ltd. (Thailand)
Philippine Long Distance Telephone Co. (Philippines)
International Communications Corp., Inc. (Philippines)
Globe Telecom Inc. (Philippines)
Smart Communications Inc. (Philippines)

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



CORPORATE DIRECTORY
Nippon COMSYS Corporation
As of March 31, 1998

Company Name	Principal Business	Paid-in Capital	Percentage Owned (%)
Consolidated Subsidiaries			
Okoshi Denken Co., Ltd.	Telecommunications engineering and electrical engineering	¥60 million	96.4 %
Tokyo Denwa Shisetsu Co., Ltd.	Design of telecommunications facilities and civil engineering projects	¥40 million	85.3
Major Non-Consolidated Subsidiaries			
COMSYS Tusan Co., Ltd.	Sales of construction materials	¥60 million	94
Nippo Kensetsu Kogyo Co., Ltd.	Civil engineering	¥50 million	55
COMSYS Techno Co., Ltd.	Planning and consultation with regard to information-processing technology	¥50 million	100
COMSYS Business Service Co., Ltd.	Construction of telecommunications facilities	¥304 million	100
Major Affiliates			
Domestic:			
Tokyo Tsuken Co., Ltd.	Construction of telecommunications facilities	¥54 million	39
Nitto Tsuken Co., Ltd.	Construction of telecommunications facilities	¥60 million	33
Overseas:			
Thai Telecommunications Engineering Co., Ltd.	Technological consulting and engineering services	B15,000 thousand	48
Thai COMSYS & Jackson Co., Ltd.	Technological consulting and engineering services	B2,000 thousand	49
COMSYS Philippines, Inc.	Technological consulting and engineering services	P3,125 thousand	30
CMC Engineering SDN. BHD.	Technological consulting and engineering services	RM500 thousand	59.2



Nippon COMSYS Corporation

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

Telephone: 81 (3) 3448-7031