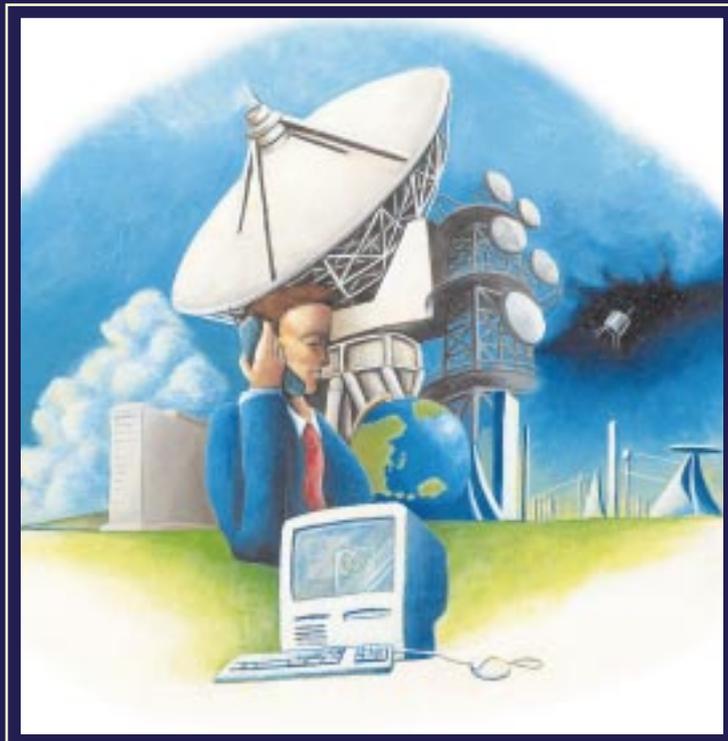


# ANNUAL REPORT

# 1999

Fiscal Year Ended March 31, 1999



**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 Public 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.

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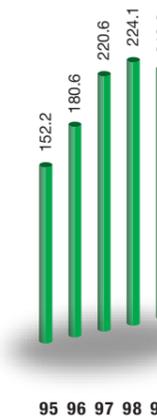
FINANCIAL HIGHLIGHTS

Nippon COMSYS Corporation  
Years ended March 31, 1998 and 1999

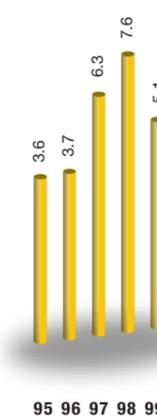
	Millions of yen		Thousands of U.S. dollars	Change (%)
	1998	1999	1999	
Contract backlog at beginning of the year	¥ 57,684	¥ 68,458	\$ 570,483	18.7%
New orders received during the year	234,877	228,838	1,906,983	-2.6%
Net sales	224,103	219,764	1,831,366	-1.9%
Contract backlog at end of year	68,458	77,532	646,100	13.3%
Net income	¥ 7,611	¥ 5,075	\$ 42,292	-33.3%
Total assets	160,561	166,002	1,383,350	3.4%
Shareholders' equity	90,101	96,635	805,292	7.3%
	Yen		U.S. dollars	
<b>Per share:</b>				
Net income	¥ 60.96	¥ 38.78	\$ 0.32	-36.4%
Cash dividends	14.25	10.00	0.08	-29.8%

Note: Yen figures have been converted from U.S. dollars at the rate of ¥120.00=US\$1, rounded, for convenience only, from an approximate exchange rate of ¥120.55 to the dollar on March 31, 1999.

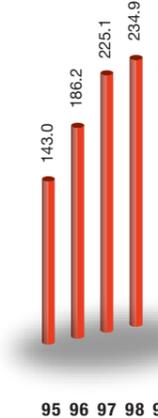
Net Sales  
(¥ Billions)



Net Income  
(¥ Billions)



New Orders Received  
(¥ Billions)



## LETTER FROM THE MANAGEMENT

### Environment

**D**uring this term, the Japanese government made strenuous efforts to bring the economy out of recession through changes in financial policies and stabilization of the financial system. Despite these measures, the persistent slump in consumer spending and sluggish capital investment kept the economy in what is being called the worst recession of the post-war era.

The operating environment surrounding the telecommunications industry has been adversely affected by these economic doldrums, but is forging ahead with the building of a world-class communications network to take us into the 21st century. At the same time, this summer's restructuring of NTT has altered the nature of competition. Where before the industry was engaged in straight cost competition, we must now compete to offer better services and quality. Competition among domestic and international telecommunications firms to win clients has become fiercer yet, while mergers and tie-ups among firms scrambling for survival are increasing.

Nippon COMSYS Corporation is meeting the challenges posed by these dramatic changes in the market, as well as by the diversification of customer needs, through strengthening of systems and organizations, and by requiring each branch to achieve ISO certifications. By meeting global standards, we intend not only to expand our business with NTT and the companies of the NTT group, but also to grow our CC Box, software development, and other lines. In addition, we have striven to expand our overseas operations, with particular emphasis on Southeast Asia.

### Enhancing Managerial Efficiency

**I**n an era of dramatic changes such as this, a higher level of managerial efficiency is required. In this regard, COMSYS has recently instituted an annual



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

salary system for upper management, and has established a stock option system that extends not only to executives and top management, but down to the project managers who are the on-site core of our construction operations. To strengthen our ability to arrive at management decisions in a timely fashion, to enhance our management oversight capabilities, and to reinforce corporate governance, we have drastically altered the composition of the Board of Directors, and have established the new position of corporate executive officer. The Company will continue to seek ways to utilize human resources at maximum efficiency and to inject vigor into our organization.

### Performance

**O**rders from NTT declined by 8.0 percent during this fiscal year as a result of the completion of the nationwide digital network and other factors. Hit by the Asian economic downturn, orders for overseas projects plunged 56.8 percent, but strenuous efforts to win both private-sector and public works contracts at home resulted in a substantial 18.7 percent

increase in orders in the Domestic Construction and Engineering sector. This increase, however, was insufficient to absorb the declines in the NTT Construction and Overseas Construction sectors, and total orders received declined 2.6 percent to ¥228.8 billion (US\$1,907 million).

Total revenues displayed the same trends as did orders received: revenues in the Domestic Construction and Engineering sector showed solid growth, while the NTT Construction and Overseas Construction sectors were weak. As a result, total revenues slid 1.9 percent to ¥219.8 billion (US\$1,831 million).

The Company's long-standing operational-efficiency enhancement programs have brought the establishment of internal systems and controls, reductions in construction project costs, the implementation and strengthening of a subcontracting system, the prudent and profitable investment of the Company's funds, and other measures designed to increase profitability. Despite these efforts, though, operating income declined 1.3 percent to ¥13.9 billion (US\$116 million), and net income dropped 33.3 percent to ¥5.1 billion (US\$42 million). This decline in net income was primarily the result of the Asian economic crisis. There is concern that customers of our overseas affiliates may default on payments due in connection with construction orders, and we are transferring funds to reserves in anticipation that we will have to make good the loans that we guaranteed for them in connection with these construction contracts.

### Outlook and Important Issues

**N**TT, which accounts for a large percentage of our orders received, can be expected to make capital investments in cellular phones and other mobile-communications technologies. However, it is forecast that declines in new telephone service subscriptions will preclude

growth in NTT's total capital investments.

Looking at non-NTT markets, there is a rush to offer the electronic commerce and graphical services that are projected to be the wave of the 21st century. These markets will only grow as we enter the multimedia era. As COMSYS enters new fields, and as our customer base becomes more diverse, we will be striving to increase our non-NTT business, by placing increased emphasis on CC Box, LAN, and other multimedia communications projects, and through energetic efforts to win contracts overseas. Of course, the most important issue facing the Company is to increase total orders received.

To allow the Company to respond in a timely manner to the rapid changes in today's markets, COMSYS must further reinforce its marketing capabilities, its technological expertise, and reduce expenses in order to bolster its cost-competitiveness.

### Dividends

**D**ividend policy is one of the most important issues with which any firm must deal. As the foundation for continued expansion, we are strengthening our financial structure and improving return on equity. At the same time, we strive to offer shareholders the best possible dividends consistent with the Company's performance and ability to pay dividends.

Looking at dividends during the current term, in accordance with the policy described above, the Company declared a midterm dividend of ¥5 per share, and a year-end dividend of another ¥5 per share, for a total dividend of ¥10 per share for the term.

This is a payout ratio of 26.0 percent, for return on equity of 5.4 percent and a ratio of dividends to shareholders' equity of 1.4 percent.

To offer a more diverse range of return to our shareholders, through the midpoint of fiscal 1999 we will be setting aside a ¥5 per share fund for the purpose

of buying back and retiring our issued stock shares. In the following fiscal year, we plan to pay dividends of ¥10 per share, and to set aside a further ¥5 per share for the retirement of issued shares.

Funds from internal reserves were used this year to further reinforce our business base and to expand our training facilities in furtherance of the growth of our operations. In addition, we replaced a number of tools and instruments for purposes of safety and to remain abreast of technological advances, and made capital investments in construction bases for the purpose of improving the work environment.

### Capital Investment and Fund Acquisition

**D**uring this term, COMSYS executed capital investments of ¥5.04 billion (US\$42 million). Significant investments included the purchase of real estate and structural rights in connection with the Higashi Gotanda Redevelopment Building. We also acquired land for the construction of the COMSYS Omiya Building (provisional name) which will include our Kantonaka Branch, the Omiya Technostation, and an Education and Training Center. We also made investments in the construction of our Tohoku branch, which commenced in July 1998, and our Tokai branch, which broke ground in January 1999. No bonds or other instruments were issued during this term.

### The Y2K Problem

**C**OMSYS considers the millennium bug to be the most important management issue facing the Company, and has established the "Year 2000 Special Project" to help us rise to this technological challenge. Together with a thorough inspection of all our key systems, divisional systems, and peripheral equipment to detect and correct Y2K-related problems, we have checked all our own products (primarily software) for compliance.

We will be shifting our key systems

to new Y2K compliant software by November 1999. Divisional systems and peripheral equipment will be compliant by June 1999, and all systems needed for dealing with clients will be compliant by July 1999. We have already completed the inspection of our products (chiefly software) for Y2K compliance. In addition, we have established a Contingency Management Plan to handle any unanticipated problems.

Since March 31, 1996, the Company has invested a total of ¥650 million (US\$5 million) in these Y2K compliance programs and is scheduled to invest a further ¥750 million (US\$6 million) in the coming term. This will bring our total Y2K investments to ¥1.4 billion (US\$12 million). The bulk of this amount was allocated to planned revaluation of information systems in connection with the improvement of operational capabilities, so these investments should have no significant effect on the Company's performance or cash flows.

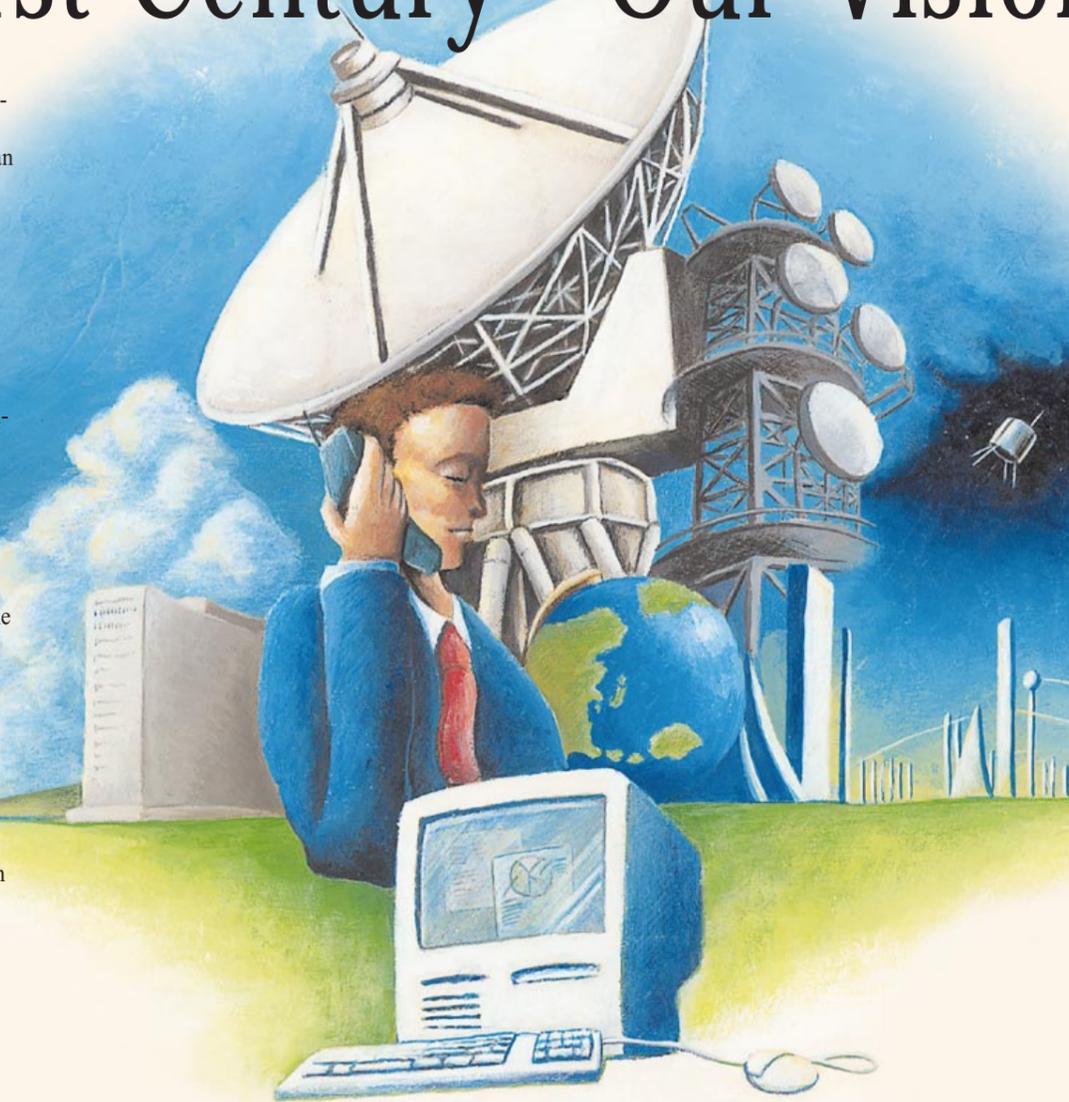
Nippon COMSYS Corporation will employ its technological capabilities and foresight in identifying and challenging new fields. We request the continued support of the Company's clients, shareholders, and employees in this time of troubled economic conditions.

**Shozo Iwasaki**  
Chairman and Representative Director

**Hironobu Takeuchi**  
President and Representative Director

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

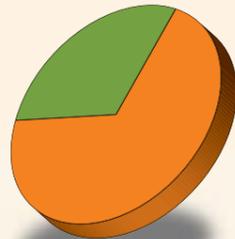
- The opening of the 21st century will be characterized by explosive growth in multimedia computing and communications, as the world sees the evolution of high order, information-based societies. The Ministry of Posts and Telecommunications has announced the Information Communications Infrastructure Program, which projects the development of an optical fiber network serving the entire nation by the year 2010. COMSYS expects to be deeply involved in the execution of this plan.
- To clarify its response to these trends, COMSYS has drafted a medium-term management plan, which it calls the COMSYS '90s II plan. Goals now include:
- Strengthening our NTT construction operations, as well as increasing the earnings of our domestic and overseas telecommunications construction projects and information services such as software development. By 2004, we will increase total annual revenues to ¥340 billion (US\$2,833 million), while bringing the ratio of NTT contracts down from the current 65 percent to approximately 50 percent. Responding to the worsening cost competition in the market with a companywide efficiency enhancement program, which will encompass not only subsidiaries and affiliates, but subcontractor firms as well; and increasing total profits per employee in our manufacturing division by more than 20 percent, to achieve recurring profits of ¥20 billion (US\$167 million).
- Strengthening training programs and developing proprietary technology, primarily in the field of construction, in response to today's rapid pace of technological innovation. Continuing to stress mechanization and advanced facilities on our construction sites, for the purposes of improving the work environment and ensuring worker safety.
- The Ministry of Posts and Telecommunications projects that Japan's information and communications market will grow to ¥125 trillion (US\$1,042 billion) by the year 2010, including a telecommunications market of ¥26.8 trillion (US\$223 billion), a communications and computer terminal market of ¥26.0 trillion (US\$217 billion), and a content (databases, images, video games, software, etc.) market of ¥63.4 trillion (US\$528 billion). Of this, telecommunications and broadcasting industry investment in 2010 is forecast at ¥7.2 trillion (US\$60 billion).
- COMSYS is determined to become the leading firm in the field, to make a contribution to a higher quality of life, and to enhance the business possibilities represented by these new telecommunications capabilities.



## Our second Corporate Identity Campaign

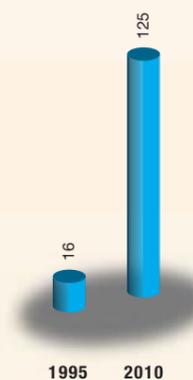
- The year 2001 will be the first of the 21st century, and will also be the 50th anniversary of this Company's founding. This fiscal year marks the eleventh since the inauguration of our first Corporate Identity Campaign, and the ninth since we selected the Company's current name.
- Following the Company's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

**70%** NTT  
**30%** Non-NTT  
**Sources of Construction Contracts**



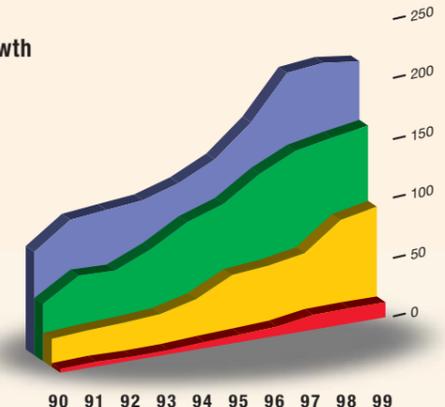
COMSYS is highly committed to workplace safety. To this end, we conduct scheduled training in pole-climbing safety and other skills.

**¥125**trillion (2010)  
 ¥16 trillion (1995)  
**The Growing Multimedia Market**



## Nine Years of Growth (¥ Billions)

- Net Sales
- Total Assets
- Shareholders' Equity
- Operating Income



## CORPORATE CITIZENSHIP

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

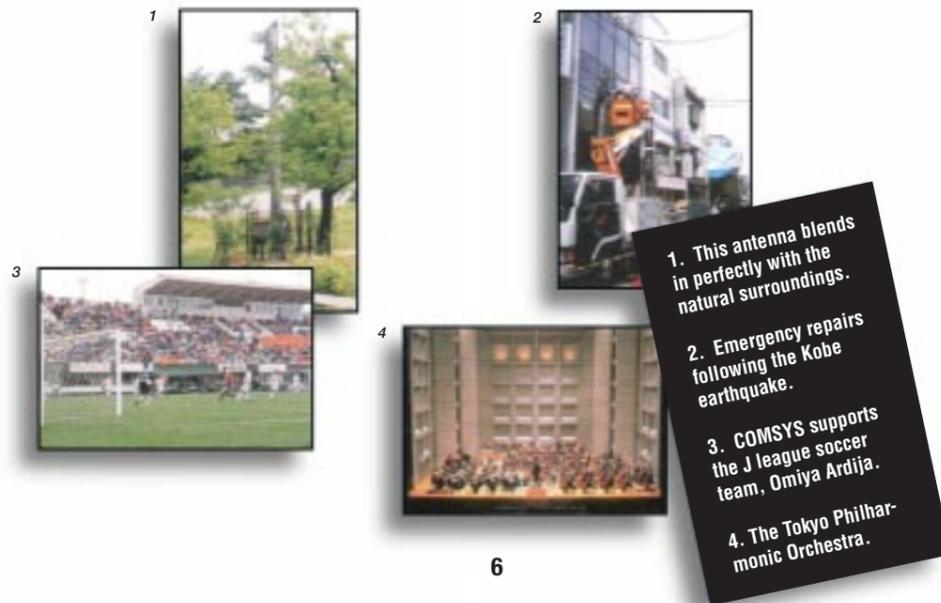
for the antenna pole. The pole is approximately 12 meters tall, and sports an artificial Japanese oak pattern, branches and leaves. Everyone concerned is very pleased with this non-intrusive facility, which greatly increases convenience with no degradation of the environment.

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

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

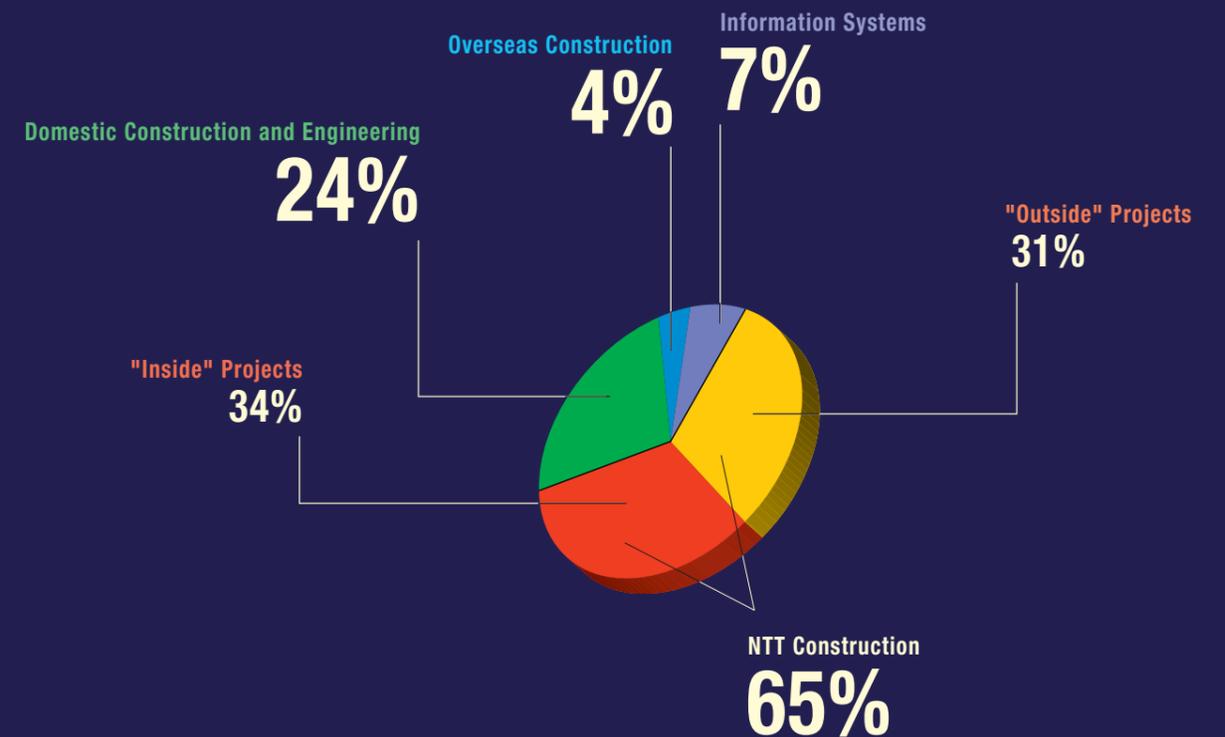
● In 1984 the Tokyo Philharmonic gave performances in fifty cities in seven European countries, and in 1989 toured twenty cities in eight European countries. In 1994, the Philharmonic performed in fifteen cities, mainly in Germany and England. These concerts have earned the Tokyo Philharmonic a solid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

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



## REVIEW OF OPERATIONS

Sales by Business Category

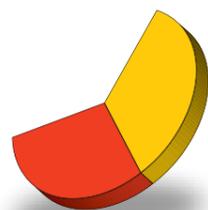


## NTT CONSTRUCTION

● NTT and the NTT Group, who are our most important clients, face increasingly vigorous competition from firms in every area of the communications industry, from telephone services to multimedia technology. As has been the case for several years now, competition to offer new services and lower costs is brisk. NTT is making preparations for this summer's corporate reorganization, and for dynamic expansion of the industry leading NTT group in the telecommunications era heralded by the turn of the millennium.

● In response to the full-scale implementation of NTT's "New Project Management Method" in January of this year, which gives much wider discretion to the contractor who actually performs a job, this Company's NTT Construction Sector has been training and fostering technicians, particularly in the fields of design and digital technology, and has strengthened its general management capabilities, including design, execution, and supervision. Meeting NTT's policy requirements, the sector conducted a vigorous effort to win more contracts from NTT and the NTT Group. Despite an increase in demand for cellular telephones and other mobile communications services, however, capital investments were restrained as a result of the completion of the nationwide digital network and declining demand for new telephone subscriptions. As a result, orders received in this sector declined 8 percent to ¥143.0 billion (US\$1,192 million), and construction revenues fell 4.7 percent to ¥142.9 billion (US\$1,191 million).

● One of this term's most important events for this sector was the achieving of ISO 9001 certification. We have been now working to achieve certification of all the Company's branches, and completion was reached in April 1999. In the near future, NTT will make



**65%**  
of Total Revenue

Sales of NTT Construction  
(¥ Billions)

ISO certification a condition for submitting bids, but this will not be a problem for COMSYS.

● In July 1999, NTT was reorganized into four different firms: a stock holding company, an eastern Japan company, a western Japan company, and a long-distance and international communications company. To meet this development, COMSYS has established a Western Japan Headquarters in Osaka. The new regional headquarters serves primarily as a liaison with NTT West Japan and with the long-distance and international communications company's operations in western Japan. This division of regional responsibilities will strengthen our ability to win contracts in eastern and western Japan alike, give us the strengths of a regional contractor, allow us to reinforce our business base in each region.

● COMSYS has inaugurated the  $\pi$  System, a leading-edge optical fiber construction method, the Company is engaged in the "Fiber to the Home" project, bringing optical cable technology to residential areas. The  $\pi$  System involves the installation of a number of  $\pi$ -Optical Network Units, from which metallic cables are run to each residence. This new  $\pi$  System technology will contribute substantially to NTT's goal of providing fiber optic technology to each of Japan's major cities by the year 2000, and is expected to be an important element of the 21st century's communications infrastructure.

● Looking forward to the next fiscal year, the operating environment for the NTT Construction sector is forecast to deteriorate further. The reorganization of NTT is imminent. Stiffer competition among telecommunications firms is forecast, including European and North American companies. These developments will render even more urgent

the need for cost reductions in this industry. COMSYS will meet these adverse circumstances by increasing project safety and efficiency, expanding and strengthening our subcontracting system, and fostering the technicians needed to meet the dawning multimedia era.



2



3



4

1. A cable vault ready to receive telecommunications cables.
2. The  $\pi$  System, communications infrastructure for the 21st century.
3. A performance test of optical fiber cable after installation.
4. An emergency diesel engine.

## DOMESTIC CONSTRUCTION AND ENGINEERING

● The Domestic Construction and Engineering sector handles in-country telecommunications construction projects for the national government, local governments, the NCCs, and other private firms—all domestic clients other than NTT and its group companies. This encompasses a wide range of services, including the construction of electrical facilities, “CC Box” (multi-use underground cable conduit) and LAN installation, and structural construction.

● Despite the recession in the Japanese economy, the installation of multimedia computing and communications systems and facilities in preparation for the 21st century has reached a rapid pitch. Telecommunications providers are extending their facilities, and government agencies and firms in other industries are moving forward with computerization in the interests of efficiency enhancement. The environment in this market is undergoing dramatic changes.

● COMSYS as a whole is focusing on CC Box, LANs, and similar operations as strategic fields, and is pursuing an energetic marketing program to increase sales and win more construction-related contracts in these areas. As a result, orders received rose 18.7 percent to ¥63.8 billion (US\$532 million), and net revenues grew 10.4 percent to ¥52.4 billion (US\$437 million).

● During this term the Company was supervising contractor for the upgrade of the audio-visual system in Tokyo University’s Yasuda Hall, one of the University’s best-known landmarks. Construction of the hall, which seats 1,700, was finished in

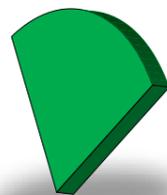
1925, and its fundamental design made it most unsuitable for the installation of sound equipment. In addition, it was essential to avoid damage to this cultural treasure’s traditional beauty or atmosphere. Leading-edge technology gave COMSYS the ability to work within these demanding conditions to create a top-flight AV environment.

● Last autumn we completed work on contracts received in connection with ten dry-land stations for KDD’s “Japan Information Highway” (JIH) project. This project, unique in the world, involves laying a loop of high-capacity fiber optic cables on the ocean floor around the entire Japanese archipelago. COMSYS dealt primarily with the installation of communications equipment.

● Also during this term we won a contract from the Tokyo Department of Water and Sanitation to lay fiber optic cable inside city drainage mains. We laid cable between the Tokyo Station North Exit pump station and the Hamamatsucho pump station, a distance of about five kilometers, and between the Tsukiji pump station and the Shiodome pump station. For this project we used a robot that is capable of laying fiber-optical cable. The robot was particularly useful in the 2.9 kilometer stretch in which the mains contract to a diameter that makes it difficult for workers to enter.

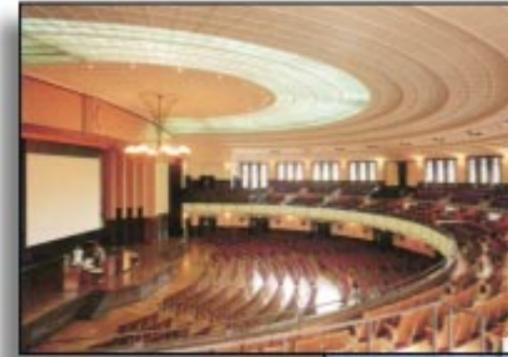
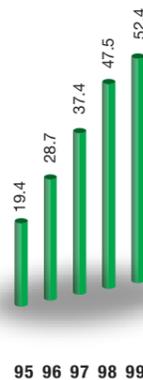
● In the year 2000 the Ministry of Construction will require ISO 9000 series certification as a condition of bidding on the public works contracts it controls. This sector cleared this hurdle last August, when it was awarded its ISO 9001 certification.

● We are energetically preparing for the expansion of the global multimedia market in the 21st century. Through capital investments and diversification into new fields of business, we are striving to further expand our business.



**24%**  
of Total Revenue

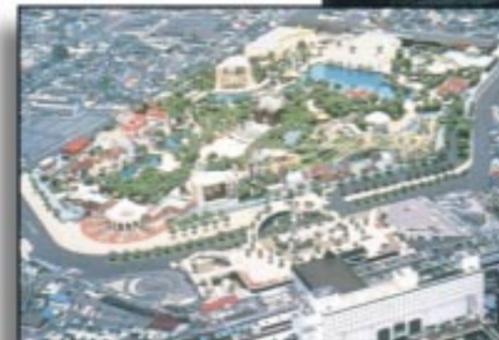
Sales of Domestic Construction and Engineering (¥ Billions)



2



3



4



1

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

## INTERNATIONAL OPERATIONS

● Our overseas operations suffered significant adverse effects from the Asian economic crisis that began two years ago. In response, we initiated vigorous marketing programs in Southeast Asia, particularly in Thailand and the Philippines.

Despite these efforts, orders received were held to ¥4.0 billion (US\$34 million), a decline of 56.8 percent, and net revenues fell 25.6 percent to ¥7.9 billion (US\$65 million).

● COMSYS Philippines, Inc. (CPI), a subsidiary, won ISO 9001 certification in January 1999. In addition, CPI has established Mindanao offices in the cities of General Santos and Davao after having won contracts in those areas. Overseas projects overall are slumping, but CPI alone is turning in a solid performance. It is anticipated that ISO certification will soon become a prerequisite for bidding on international contracts. However, as our Overseas Division achieved ISO 9001 certification in December 1997, that will not be a problem for COMSYS.

● The Company is also participating in the Asian Multimedia Forum, a group formed to develop a shared multimedia platform to be used throughout Asia. Major activities include the trial use of international multimedia systems, joint development of multimedia services and applications, bilateral participation in other multimedia-related projects in Asia, sponsorship of seminars, symposia, and exhibitions, and the dissemination of information

on multimedia-related activities and technologies.

● Significant overseas activities during the term included participation in the SEA-ME-WE3 (South East Asia, Middle East, and Western Europe) project, which involves laying 40,000 kilometers of cable in ten segments, to connect some 40 dry-land communications stations in 25 countries. Fujitsu Limited has won a contract for two of these ten segments, and COMSYS will perform factory testing of Fujitsu's 20Gb/s WDM submarine line terminal equipment and conduct the in-station test, will provide support for laying the main cables, and will undertake the commissioning and acceptance test.

● Together with Sumitomo Corporation, COMSYS has been awarded a contract from Bayan Telecommunications, Inc. to build telephone networks totaling 150,000 lines in Mindanao, Visayas, and the Manila area. In addition to the cities of General Santos and Davao in Mindanao, construction is scheduled to commence in Novotas, a suburb of Manila, and Manila itself. Within three years, further construction is scheduled for Koronadal in Mindanao and Iloilo in Visayas.

● In March 1999 CPI signed an agreement with SenTech calling for cable and equipment installation in connection with the construction of "intelligent" buildings. CPI's first project was on four large buildings in the Rockwell district, which is the largest upscale residential development in



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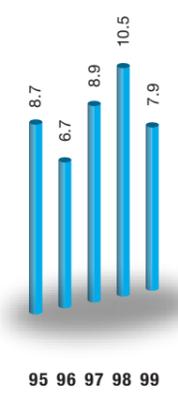
4

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



**4%**  
of Total Revenue

Sales of Overseas Construction  
(¥ Billions)



the Philippines. This involved the installation of electrical-meter cabling and equipment for 870 residential units. Further projects are in the offing.

● In the coming fiscal year, economic conditions in Southeast Asia are forecast to remain severe.

Despite this, and while exercising due caution in controlling credit risks, we will strive to expand orders in connection not only with telecommunications, but with sewer construction and other public works projects as well.

1. An optical fiber transmission and switching system project in urban Viet Nam.

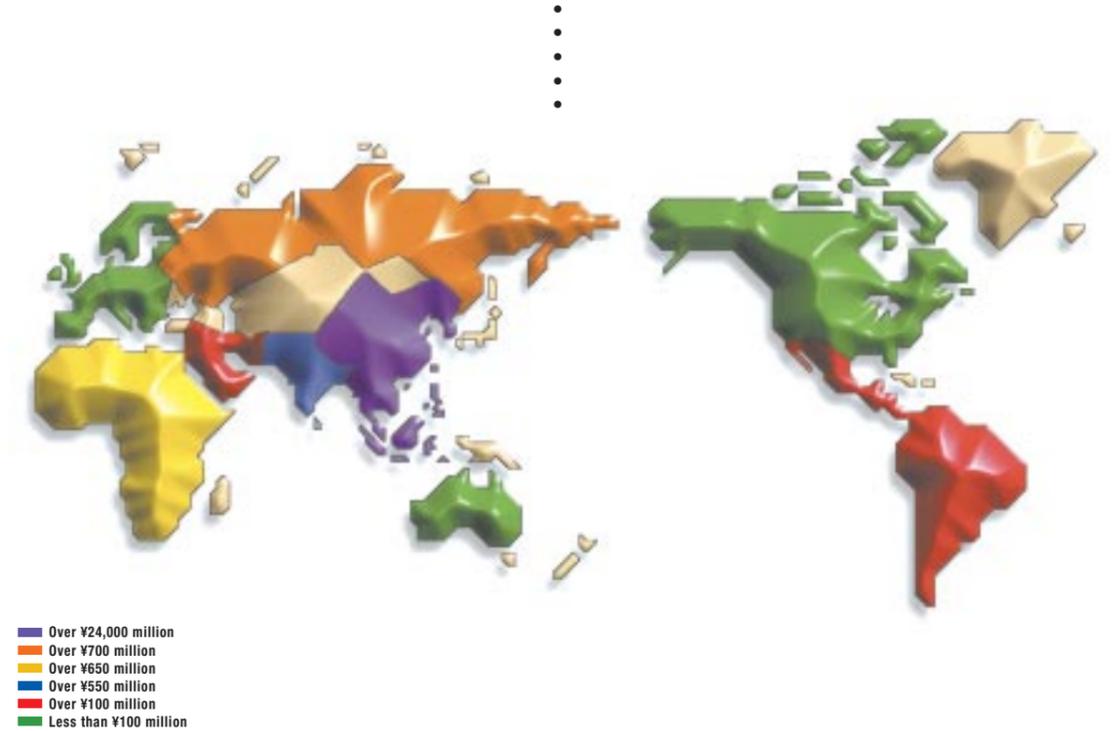
2. An outside plant project in Cebu, the Philippines' second most developed island after Luzon.

3. An outside plant project in the suburbs of Kuala Lumpur, Malaysia.

4. An optical SDH transmission project in Medellin, Columbia.

5. An outside plant project in Dar es-Salaam, Tanzania.

### 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
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, 1999)

Philippines	Installation of trunk lines and local cable 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
Philippines	Supply and installation of local cable and junction network for GLOBE Telecom PHASE-4 in Manila and the provinces

## INFORMATION SYSTEMS

● The Information Systems sector is engaged in software development, sales of computers, servers, and network devices, ATM network construction, wiring projects, LAN design and installation, installation of business and control systems, as well as maintenance and repair services. COMSYS offers comprehensive software solutions, ranging from piecemeal programming to development of entire software packages.

● This sectors products include the Red Brick DataWarehouse, a quick-loading high-performance online analytical processing tool. This software allows Y2K compliance without programming. Ease of use means that programmers are not required for the development of database applications. Users can increase productivity and cut related personnel expenses, while meeting reporting requirements in less time.

● The Dream Web Server is an "all-in-one server" that incorporates the router, terminal adapter, digital service unit, firewall, and switching hub into one PCI card. It offers easy setup and operation. Just plug in the power and the LAN cable, press the maintenance switch, and begin. Absolutely no keyboard or mouse commands are required.

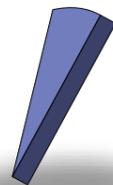
● The Smart Care computer telephone integration (CTI) support system allows even small and medium-sized businesses to offer increased customer satisfaction, by ensuring that all incoming communications are handled promptly and efficiently. The CTI + WINE small office CTI system is a more economical system for improving customer response and service. The new BL-3000

Digital Monitoring System allows video monitoring over existing network systems. The Solution Package software includes Cable Manager, a resource management system, The Pert, a project-management package for the construction industry, and CONDUIT-CAD, a full-featured civil-engineering CAD system.

● The COMSYS WINE Dream Kit is an intranet software suite that offers e-mail, BBS, scheduling, remote access, and many other features. The Voice Over Network uses a router to allow communications between multimedia networks. This router allows the transmission of voice or digital data across a WAN or internet connection to and from either digital or analog hardware.

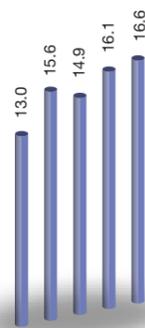
● Looking at this division's performance during the term past, office equipment sales have benefited from the permeation of internet connectivity throughout the nation, but plunging computer prices and competition from volume retailers and other discount sales outlets have hurt sales. Conditions in this market continue to grow more competitive, but we are fighting hard to expand sales. The Company has vigorously pursued the expansion of sales, emphasizing its wide array of technological strengths in the fields of communications network construction and systems and software development. This allowed the Information Systems sector to achieve 10.4 percent growth in orders received, which rose to ¥17.9 billion (US\$149 million), while net revenues rose 2.9 percent to ¥16.6 billion (US\$138 million).

● In the coming term we will be further strengthening our software operations, and will be marketing packages that integrate communications systems with computer and office equipment systems. We will be striving for increased revenues by anticipating customer needs in the multimedia era, and tailoring our marketing accordingly.



**7%**  
of Total Revenue

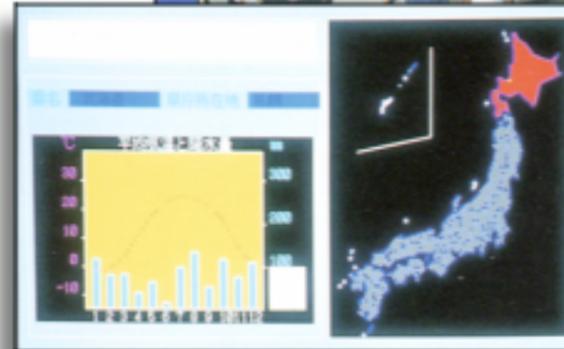
Sales of Information  
Systems (¥ Billions)



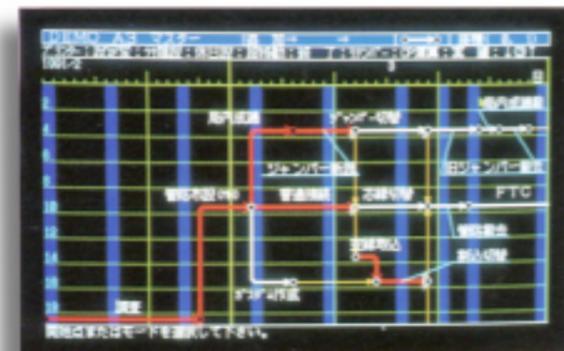
95 96 97 98 99



2



3



4

1. A TV studio utilizes high-speed election reporting software developed by COMSYS.

2. At work developing new software.

3. A screen shot from Hi Mado.

4. Our PC application software, The PERT.

**MANAGEMENT**  
As of June 29, 1999



**BOARD OF DIRECTORS**



*Chairman and Representative Director*  
Shozo Iwasaki



*President and Representative Director*  
Hironobu Takeuchi



*Senior Executive Vice President and Director*  
Koichi Kinoshita



*Senior Executive Vice President and Director*  
Ryuichi Arano



*Senior Managing Director*  
Kiyoto Kuwabara



*Managing Director*  
Koji Miyata



*Director*  
Michiaki Ono



*Director*  
Yasunobu Sasaki

**CORPORATE AUDITORS**

*Standing Auditors*  
Takashi Kato  
Masaharu Ogawa

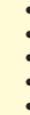
*Auditors*  
Sadanori Okada  
Takashi Kakimi

**CORPORATE EXECUTIVE OFFICERS**

*Senior Vice Presidents*  
Isao Iijima  
Takuo Sue  
Takaaki Okayama  
Ko Tamai  
Masahide Kajiyama  
Tatsuya Sato  
Masayuki Nose

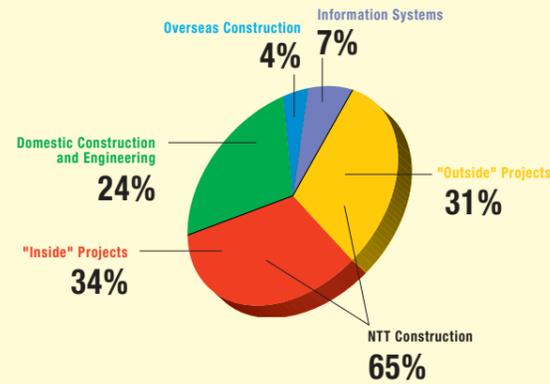
*Executive Officers*  
Kensuke Yabuki  
Katsuhiko Tanikawa  
Tadashi Matsumoto  
Kyoichi Suzuki  
Syotaro Chikamoto  
Yoichi Chiba  
Kenji Kondo  
Mamoru Komiyama  
Kaoru Noda  
Suguru Sugiyama  
Yoshinobu Tanaka  
Yasuhiko Kubota  
Etsuo Shibata  
Yukuo Asakura  
Toyohiro Goto

**FINANCIAL SECTION**



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FINANCIAL REVIEW



Sales by Business Category  
Nippon COMSYS Corporation

(Years ended March 31, 1995, 1996, 1997, 1998 and 1999)

	Millions of yen					Thousands of U.S. dollars	
	1995	1996	1997	1998	1999	1999	
<b>Construction Business</b>							
NTT Construction	¥111,053	¥129,613	¥159,387	¥149,997	<b>¥142,947</b>	<b>\$1,191,225</b>	
Domestic Construction and Engineering	19,392	28,706	37,415	47,476	<b>52,411</b>	<b>436,758</b>	
Overseas Construction	8,729	6,697	8,925	10,545	<b>7,850</b>	<b>65,416</b>	
<b>Other Business</b>							
Information Systems	13,039	15,613	14,863	16,085	<b>16,556</b>	<b>137,967</b>	
<b>Total</b>	<b>¥152,213</b>	<b>¥180,629</b>	<b>¥220,590</b>	<b>¥224,103</b>	<b>¥219,764</b>	<b>\$1,831,366</b>	

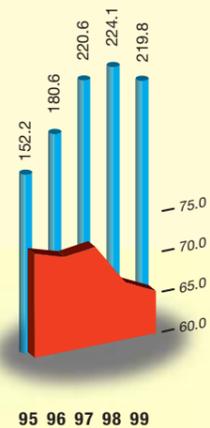
Note: Yen figures have been converted from U.S. dollars at the rate of ¥120.00=US\$1, rounded, for convenience only, from an approximate exchange rate of ¥120.55 to the dollar on March 31, 1999.

• Revenues •

Despite vigorous government efforts to invigorate the economy, the Japanese economy remained weak throughout fiscal 1998. There was no improvement in the prolonged slump in consumer spending, private sector capital investment, and other economic indicators. In addition, Japan's financial industry is still struggling with the problem of non-performing and defaulted loans, and the term saw further bank failures. Despite the relative strength of the telecommunications industry, the effects of this persistent recession forced a 1.9 percent decline in the Company's net sales, to ¥219,764 million (US\$1,831 million).

The NTT construction sector saw revenues decline again this term. After the 4.7 percent drop to ¥142,947 million (US\$1,191 million), however, revenues in this sector are still 10.3 percent higher than three years earlier. "Outside" projects accounted for ¥68,562 million (US\$571 million) of the sector's total, while "inside" projects accounted for the remaining ¥74,385 million (US\$620 million).

Revenues in the domestic construction and engineering sec-



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

Net sales  
Percentage generated by NTT Construction Projects

tor grew yet again in the term just past, rising 10.4 percent to ¥52,411 million (US\$437 million). This is the fourth consecutive year of double-digit sales growth in this sector, and demonstrates that we are making progress in expanding non-NTT operations. The overseas construction sector saw a 25.6 percent decline in revenues, to ¥7,850 million (US\$65 million), primarily as a result of the economic downturn in Asia. The information systems sector turned in stronger performance again this term, its second consecutive year of sales growth. Sales in this sector rose 2.9 percent to ¥16,556 million (US\$138 million).

• Results of Operations •

Cost of sales as a percentage of sales rose to 87.9 percent, and together with the decline in sales resulted in a 4.8 percent drop in gross profit, to ¥26,491 million (US\$221 million).

Selling, general, and administrative expenses declined by 8.4 percent to ¥12,614 million (US\$105 million), and as a percentage of gross profit declined to 47.6 percent. However, this improvement was due to the transfer of enterprise taxes from this accounting category to the category of Income Taxes. When we allow for the enterprise taxes of ¥1,640 million (US\$14 million) that were not posted to this accounting category, we see that SGA actually rose by 3.5 percent, chiefly as the result of higher labor costs. Operating income edged down 1.3 percent to ¥13,877 million (US\$116 million), but if enterprise taxes had been posted to SGA, the decline would have been 13.0 percent.

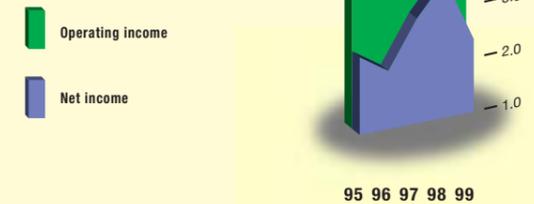
Lower interest and dividend income and higher interest and other expenses contributed to a 9.2 percent fall in income before income taxes, which dropped to ¥12,755 million (US\$106 million). Other expenses increased as the result of the establishment of a reserve for losses from overseas investments, which we based on country risk and the financial condition of the respective overseas firms. The transfer of enterprise taxes to income taxes pushed the effective income tax rate to 60.2 percent, which helped push net income down by 33.3 percent to ¥5,075 million (US\$42 million). As a percentage of sales, net income decreased from 3.4 percent to 2.3 percent, and return on equity decreased from 9.8 percent to 5.4 percent. Net income per share was ¥38.78 (US\$0.32), compared to ¥60.96 in the previous fiscal year.

Dividends were reduced from last year's ¥14.25 to ¥10.00 (US\$0.08), as we allocated ¥5 per share through the 1999 mid-term point to the retirement of the Company's treasury stock.

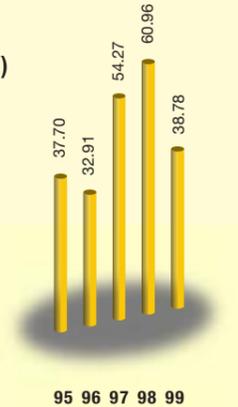
• Financial Position •

After 26.9 percent growth in the previous term, cash and time deposits were reduced by 20.5 percent to ¥21,366 million (US\$178 million). Marketable securities investments were also cut, by 30.5 percent to ¥11,886 million (US\$99 million). However, notes and accounts receivable rose 9.6 percent to ¥62,258 million (US\$519 million), and the accumulated cost of construction in progress grew by 22.5 percent to ¥19,235 million (US\$160 million). Other

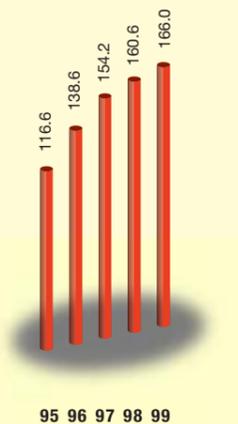
Operating Income and Net Income as Percent of Revenues (%)



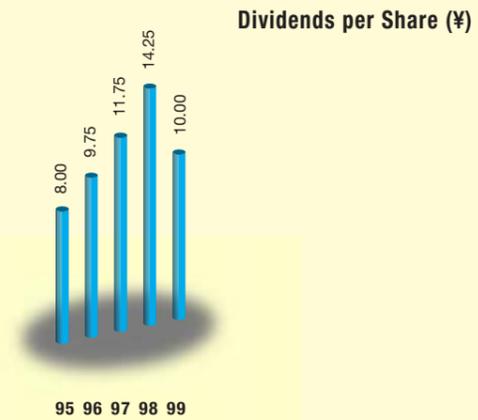
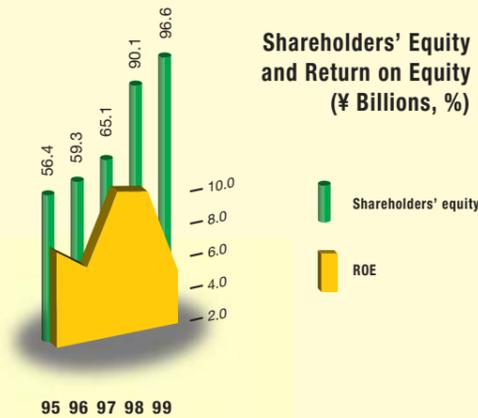
Net Income per Share (¥)



Total Assets (¥ Billions)



Nippon COMSYS Corporation  
**SELECTED FINANCIAL AND OPERATING DATA**  
 Years ended March 31, 1995, 1996, 1997, 1998 and 1999



current assets were also higher, and allowance for doubtful receivables was down. Despite these gains, however, the lower figures for cash and time deposits and marketable securities resulted in a 0.8 percent decline in current assets to ¥116,751 million (US\$973 million).

Trade payables shot up 22.5 percent during this term, to ¥32,939 million (US\$274 million), and this was the chief cause of the 11.0 percent rise in current liabilities, to ¥53,010 million (US\$442 million). Minor declines in other categories had an insignificant effect. The current ratio, as a result, fell from 2.5 in the previous term to 2.2.

Investments and other assets grew for the third consecutive term, rising a further 19.3 percent after increases of 21.5 percent and 36.2 percent in the previous two fiscal years. At year's end, this figure stood at ¥18,468 million (US\$154 million), on the strength of gains in investment securities and long-term loans receivable. Total property and equipment continues to burgeon, growing by 13.5 percent to ¥30,783 million (US\$257 million), after depreciation. Total assets thus grew 3.4 percent to ¥166,002 million (US\$1,383 million).

Shareholders' equity increased by 7.3 percent to ¥96,635 million (US\$805 million), primarily as the result of the growth of retained earnings, and the ratio of shareholders' equity to total assets increased from 56.1 percent to 58.2 percent. Based on the number of shares outstanding at March 31, 1999, shareholders' equity per share increased to ¥727.44 (US\$6.06) from the ¥690.67 recorded at the end of the previous fiscal year.

• Cash Flows •

As noted above, net income declined 33.3 percent, and following adjustments and changes in assets and liabilities, net cash provided by operating activities fell to ¥4,202 million (US\$35 million). Net cash used in investing activities recovered somewhat from its 20.4 percent decline in the previous term, rising 57.6 percent to ¥8,343 million (US\$70 million).

Proceeds from the exercise of convertible bonds fell from ¥18,083 million in the previous year to ¥2,770 million (US\$23 million), and cash dividends paid were reduced by 29.1 percent to ¥1,599 million (US\$13 million). However, redemption of notes with warrants fell 21.4 percent, shrinking from last year's ¥9,867 million to ¥7,755 million (US\$65 million), and a negative figure of ¥6,584 million (US\$55 million) was posted for net cash provided by financing activities. As a result, cash and cash equivalents declined 24.4 percent to ¥33,252 million (US\$277 million).

	Millions of yen					Thousands of U.S. dollars
	1995	1996	1997	1998	1999	1999
<b>Results of Operations:</b>						
Net sales	¥152,213	¥180,629	¥220,590	¥224,103	¥219,764	\$1,831,366
Operating income	7,042	8,544	13,582	14,061	13,877	115,642
Income before income taxes	7,127	8,092	13,397	14,041	12,755	106,292
Net income	3,637	3,742	6,267	7,611	5,075	42,292
<b>Financial Position:</b>						
Total assets	¥116,617	¥138,610	¥154,246	¥160,561	¥166,002	\$1,383,350
Property and equipment	17,664	24,814	26,247	27,123	30,783	256,525
Long-term debt	25,082	24,995	25,128	16,791	9,409	78,408
Shareholders' equity	56,395	59,277	65,096	90,101	96,635	805,292
<b>Per Share of Common Stock (in yen and dollars):</b>						
Net income	¥ 37.70	¥ 32.91	¥ 54.27	¥ 60.96	¥ 38.78	\$ 0.32
Cash dividends	8.00	9.75	11.75	14.25	10.00	0.08
Shareholders' equity	539.08	514.90	562.23	690.67	727.44	6.06
<b>Financial Ratios:</b>						
Operating income to net sales	4.63%	4.73%	6.16%	6.27%	6.31%	
Net income to net sales	2.39	2.07	2.84	3.40	2.31	
Capital ratio	48.4	42.8	42.2	56.1	58.2	
Return on equity	7.6	6.5	10.1	9.8	5.4	
<b>Other Statistics:</b>						
New orders received during the year	¥143,034	¥186,180	¥225,147	¥234,877	¥228,838	\$1,906,983
Contract backlog at end of the year	47,576	53,127	57,684	68,458	77,532	646,100
Common stock price range (in yen):						
High	¥ 1,280	¥ 1,450	¥ 1,560	¥ 2,020	¥ 1,710	
Low	1,180	980	1,190	1,240	1,281	

Note: Yen figures have been converted from U.S. dollars at the rate of ¥120.00=US\$1, rounded, for convenience only, from an approximate exchange rate of ¥120.55 to the dollar on March 31, 1999.

Nippon COMSYS Corporation  
**NON-CONSOLIDATED BALANCE SHEETS**  
As of March 31, 1998 and 1999

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1999	1999
<b>Current Assets:</b>			
Cash and time deposits	¥ 26,871	¥ 21,366	\$ 178,050
Marketable securities (Note 3)	17,106	11,886	99,050
Notes and accounts receivable-trade	56,817	62,258	518,817
Inventories:			
Accumulated cost of construction in progress	15,707	19,235	160,292
Other	262	168	1,400
Other current assets	1,025	1,955	16,291
Less: Allowance for doubtful receivables	(128)	(117)	(975)
<b>Total current assets</b>	<b>117,660</b>	<b>116,751</b>	<b>972,925</b>
<b>Investments and Other Assets:</b>			
Investment securities:			
Subsidiaries and affiliates	1,490	1,906	15,883
Other (Note 3)	6,293	7,435	61,959
Long-term loans receivable:			
Subsidiaries and affiliates	219	1,606	13,383
Other	3,032	3,172	26,433
Other assets	4,464	4,372	36,434
Less: Allowance for doubtful receivables	(18)	(23)	(192)
<b>Total investments and other assets</b>	<b>15,480</b>	<b>18,468</b>	<b>153,900</b>
<b>Property and Equipment:</b>			
Land	16,452	17,821	148,508
Buildings and structures	10,554	13,275	110,625
Machinery and equipment	7,887	8,207	68,392
Construction in progress	1,513	1,828	15,233
Less: Accumulated depreciation	(9,283)	(10,348)	(86,233)
<b>Total property and equipment</b>	<b>27,123</b>	<b>30,783</b>	<b>256,525</b>
<b>Deferred Charges:</b>			
Discount on notes payable	298	—	—
<b>Total deferred charges</b>	<b>298</b>	<b>—</b>	<b>—</b>
	¥160,561	¥166,002	\$1,383,350

See Notes to the Non-Consolidated Financial Statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1999	1999
<b>Current Liabilities:</b>			
Current portion of notes and notes with warrants (Note 4)	¥ 7,755	¥ 7,373	\$ 61,442
Accounts payable:			
Trade	26,898	32,939	274,492
Other	2,398	1,863	15,525
Advances received on construction in progress	3,586	4,038	33,650
Income taxes payable	3,535	3,748	31,233
Warrants	1,291	917	7,641
Other current liabilities	2,277	2,132	17,767
<b>Total current liabilities</b>	<b>47,740</b>	<b>53,010</b>	<b>441,750</b>
<b>Long-Term Liabilities:</b>			
Notes (Note 4)	7,373	—	—
Convertible bonds (Note 4)	9,418	9,409	78,408
Accrued severance indemnities	5,876	5,356	44,633
Provision for losses from overseas investments	—	1,592	13,267
Other long-term liabilities	53	—	—
<b>Total long-term liabilities</b>	<b>22,720</b>	<b>16,357</b>	<b>136,308</b>
<b>Contingent Liabilities (Note 5)</b>			
<b>Shareholders' Equity (Note 6):</b>			
Common stock, par value ¥50 per share:			
Authorized			
— 250,000 thousand shares			
Issued			
— 130,453 thousand shares (31st March, 1998)	26,592	—	—
— 132,841 thousand shares (31st March, 1999)	—	27,983	233,192
Additional paid-in capital	24,904	26,666	222,217
Legal reserve	1,511	1,686	14,050
Retained earnings	37,094	40,300	335,833
<b>Total shareholders' equity</b>	<b>90,101</b>	<b>96,635</b>	<b>805,292</b>
	¥160,561	¥166,002	\$1,383,350

Nippon COMSYS Corporation  
**NON-CONSOLIDATED STATEMENTS OF INCOME**  
Years ended March 31, 1998 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1999	1999
<b>Net Sales:</b>			
Construction contracts	¥208,018	¥203,208	\$1,693,400
Other	16,085	16,556	137,966
	224,103	219,764	1,831,366
<b>Cost of Sales:</b>			
Construction contracts	182,819	179,419	1,495,158
Other	13,446	13,854	115,450
	196,265	193,273	1,610,608
Gross profits	27,838	26,491	220,758
<b>Selling, General and Administrative Expenses</b>	13,777	12,614	105,116
Operating income	14,061	13,877	115,642
<b>Other Income (Expenses):</b>			
Interest and dividend income	737	631	5,258
Interest expenses	(7)	(11)	(91)
Other, net (Note 7)	(750)	(1,742)	(14,517)
	(20)	(1,122)	(9,350)
<b>Income before Income Taxes</b>	14,041	12,755	106,292
<b>Income Taxes</b> (Note 8)	6,430	7,680	64,000
<b>Net Income</b>	¥ 7,611	¥ 5,075	\$ 42,292
	Yen		U.S. dollars (Note 2)
<b>Per Share:</b>			
Net income	¥ 60.96	¥ 38.78	\$ 0.32
Cash dividends	14.25	10.00	0.08

See Notes to the Non-Consolidated Financial Statements.

Nippon COMSYS Corporation  
**NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
Years ended March 31, 1998 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1999	1999
<b>Common Stock:</b>			
Beginning of period	¥17,250	¥26,592	\$221,600
Add:			
Conversion of convertible bonds	291	4	33
Exercise of warrants	9,051	1,387	11,559
End of period	¥26,592	¥27,983	\$233,192
<b>Additional Paid-in Capital:</b>			
Beginning of period	¥14,521	¥24,904	\$207,534
Add:			
Conversion of convertible bonds	291	4	33
Exercise of warrants	10,092	1,758	14,650
End of period	¥24,904	¥26,666	\$222,217
<b>Legal Reserve:</b>			
Beginning of period	¥ 1,271	¥ 1,511	\$ 12,592
Add:			
Transfer from retained earnings	240	175	1,458
End of period	¥ 1,511	¥ 1,686	\$ 14,050
<b>Retained Earnings:</b>			
Beginning of period	¥32,054	¥37,094	\$309,116
Add/(deduct):			
Net income	7,611	5,075	42,292
Transfer to legal reserve	(240)	(175)	(1,458)
Cash dividends	(2,256)	(1,599)	(13,325)
Bonuses to directors	(75)	(95)	(792)
End of period	¥37,094	¥40,300	\$335,833

See Notes to the Non-Consolidated Financial Statements.

Nippon COMSYS Corporation  
**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years ended March 31, 1998 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1999	1999
<b>Cash Flows from Operating Activities:</b>			
Net income	¥ 7,611	¥ 5,075	\$ 42,292
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,221	1,854	15,450
Provision for accrued severance indemnities, less payments	(285)	(520)	(4,333)
Provision for losses from overseas investments	—	1,592	13,267
Changes in assets and liabilities			
Notes and accounts receivable-trade	1,274	(5,441)	(45,342)
Inventories	2,681	(3,434)	(28,617)
Other current assets	144	(930)	(7,750)
Accounts payable	(2,040)	5,506	45,883
Advances received on construction in progress	(786)	452	3,767
Income tax payable	(2,660)	213	1,775
Other liabilities	(550)	(145)	(1,208)
Other, net	(882)	(20)	(167)
Net cash provided by operating activities	6,728	4,202	35,017
<b>Cash Flows from Investing Activities:</b>			
Expenditure for property and equipment	(2,555)	(5,041)	(42,008)
(Increase) decrease in investments and other assets	(2,738)	(3,302)	(27,517)
Net cash used in investing activities	(5,293)	(8,343)	(69,525)
<b>Cash Flows from Financing Activities:</b>			
Proceeds from exercise of warrants	18,083	2,770	23,083
Redemption of notes with warrants	(9,867)	(7,755)	(64,625)
Cash dividends paid	(2,256)	(1,599)	(13,325)
Net cash provided by financing activities	5,960	(6,584)	(54,867)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	7,395	(10,725)	(89,375)
<b>Cash and Cash Equivalents at Beginning of Year</b>	36,582	43,977	366,475
<b>Cash and Cash Equivalents at End of Year</b>	¥43,977	¥33,252	\$277,100
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Cash paid during the year for:			
Interest	¥ 485	¥ 366	\$ 3,050
Income taxes	10,860	7,425	61,875
Conversion of long-term debt to common stock	582	9	75

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 50 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 10 years.

The assets of the funds for the severance indemnities benefits at 31st March, 1999 were ¥20,268 million (U.S.\$168,900 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 10 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*

The Company is subject to corporate (national), inhabitants and enterprise (local) taxes based upon taxable income.

For the year ended 31st March, 1998, corporate and inhabitants taxes were included within "Income taxes" and enterprise taxes was included in "Selling, general and administrative expenses" in the statements of income, as was common practice in Japan. Effective from the year ended 31st March, 1999, enterprise tax, amounted to ¥1,640 million (U.S.\$13,667 thousand), has been also included within "Income taxes," in accordance with accounting principle generally accepted in Japan.

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 124,860 thousand and 130,890 thousand Share for the two years in the period ended 31st March, 1999, 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 ¥120.00=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, 1998 and 1999, 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	
	1998	1999	1999	1999	1999	1999
	Book value	Market value	Book value	Market value	Book value	Market value

Marketable securities:

Stocks	¥	4	¥	4	¥	2	¥	2	\$	16	\$	16
Bonds and others	3,000	3,064	2,501	2,537	20,842	21,142						

Investment securities:

Stocks	1,530	3,841	3,307	6,167	27,558	51,392
Bonds	1,629	1,735	1,629	1,745	13,575	14,542
Others	651	603	1,055	987	8,792	8,225
	¥6,814	¥9,247	¥8,494	¥11,438	\$70,783	\$95,317

## 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 1.375 per cent. at 31st March, 1998.

At 31st March, 1998 and 1999, long-term debt consisted of the following:

31st March	Millions of yen		Thousands of U.S. dollars	
	1998	1999	1999	1999
3.750 per cent. U.S. dollar notes due 1999	¥ 7,755	¥ —	\$ —	—
0.5 per cent. Swiss franc notes due 1999	7,373	7,373	61,442	
0.3 per cent. yen unsecured convertible bonds due 2003	9,418	9,409	78,408	
	¥24,546	¥16,782	\$139,850	
Current portion	7,755	7,373	61,442	
	¥16,791	¥ 9,409	\$ 78,408	

## Convertible bonds

At 31st March, 1999, unsecured convertible bonds consisted of the following:

The original amount issued at 24th, June, 1996	¥10,000 million
Balance as at 31st March, 1999	¥9,409 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, 1999	¥1,435 (U.S.\$11.96)

The number of shares of common stock required for conversion of the above unsecured convertible bonds outstanding at 31st March, 1999 at the current conversion price would have been approximately 6,557 thousand.

## Notes, warrants

At 31st March, 1999, notes consisted of the following:

	Notes (*1)
	SF100,000,000
Date of issue	7th September, 1995
Interest rate	0.5%
Maturity date	7th September, 1999
Warrants exercisable:	
On and after	21st September, 1995
Up to and including	31st August, 1999
Subscription price:	
At 31st March, 1999	¥1,353 .00 (U.S.\$11.28)

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, 1999 at the current subscription prices would have been approximately 4,593 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, 1998 and 1999, contingent liabilities consisted of the following:

31st March	Millions of yen		Thousands of U.S. dollars	
	1998	1999	1999	1999
Guarantee of loans borrowed by:				
Thai COMSYS and Jackson Co.,Ltd.	¥ 3,081	¥ —	\$ —	—
Thai Telecommunications Engineering Co.,Ltd.	4,082	3,596	29,967	
COMSYS-TTEC J.V.	2,841	2,748	22,900	
Jackson-COMSYS J.V.	1,435	134	1,116	
COMSYS Philippines, Inc.	1,357	772	6,433	
Other	497	968	8,067	
	¥13,293	¥8,218	\$68,483	

## 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	
	1998	1999	1999	1999
Write-down of investment securities	¥ (88)	¥ (16)	\$ (133)	
Amortization of discounts on note premium	(599)	(298)	(2,484)	
Provision for losses from overseas investments	—	(1,592)	(13,267)	
Other	(63)	164	1,367	
	¥(750)	¥(1,742)	\$ (14,517)	

## 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 the year in the period ended 31st March, 1998 and approximately 48 per cent. for the year in the period ended 31st March, 1999.

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 29th June, 1999, the shareholders of the Company approved the following appropriations of retained earnings:

	Millions of yen		Thousands of U.S. dollars	
	1998	1999	1999	1999
Cash dividends	¥664		\$5,533	
Transfer to legal reserve	80		667	
Bonuses to directors	85		708	



*O.Yu Kiyoko Office*  
 CERTIFIED PUBLIC ACCOUNTANTS  
 公認会計士事務所

5TH FLOOR, NISHIMORI BUILDING,  
 1-3-1 TORIMONPOIN, MINAMIKU  
 TOKYO 105, 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, 1998 and 1999, 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, 1999, 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, 1998 and 1999, and the results of its operations and cash flows for each of the two years in the period ended 31st March, 1999, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

Masatoshi Yoshino

Eiji Miyashita

Hideo Niwa

Certified Public Accountants

Tokyo, Japan  
 29th June, 1999

SUMMARY OF CONSOLIDATED PERFORMANCE

Nippon COMSYS Corporation and Consolidated Subsidiaries  
 Years ended March 31, 1998 and 1999

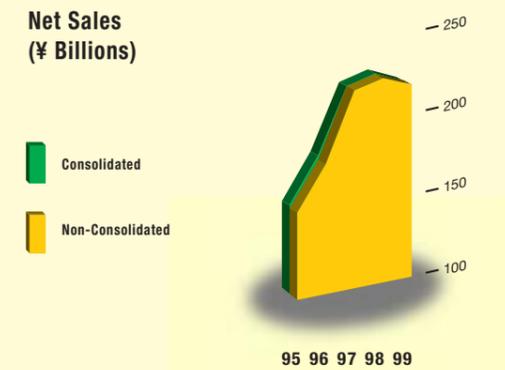
	Millions of yen		Thousands of	Change (%)
	1998	1999	U.S. dollars	
Net sales	¥225,313	¥220,522	\$1,837,683	-2.1%
Operating income	14,348	14,260	118,833	-0.6%
Net income	8,309	5,624	46,867	-32.3%
Total assets	166,067	171,669	1,430,575	3.4%
Shareholders' equity	94,654	101,721	847,675	7.5%

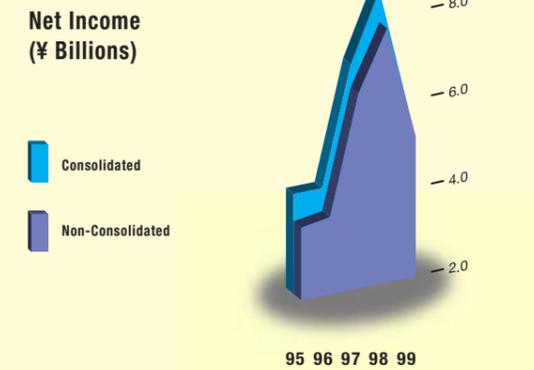
Per share:	Yen		U.S. dollars	
	Net income	¥ 66.55	¥ 42.97	\$ 0.36
Cash dividends	14.25	10.00	0.08	-29.8%

Note: Yen figures have been converted from U.S. dollars at the rate of ¥120.00=US\$1, rounded, for convenience only, from an approximate exchange rate of ¥120.55 to the dollar on March 31, 1999.

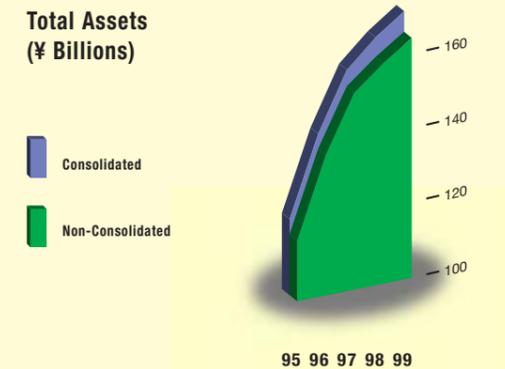
Net Sales  
 (¥ Billions)



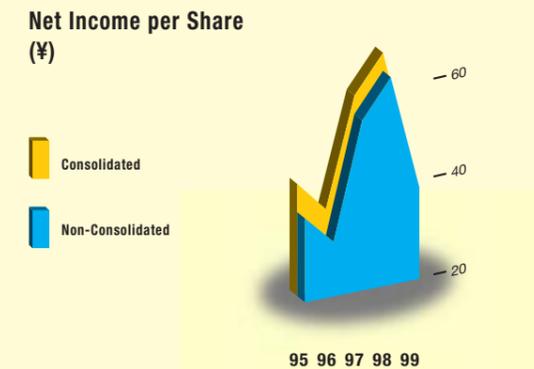
Net Income  
 (¥ Billions)



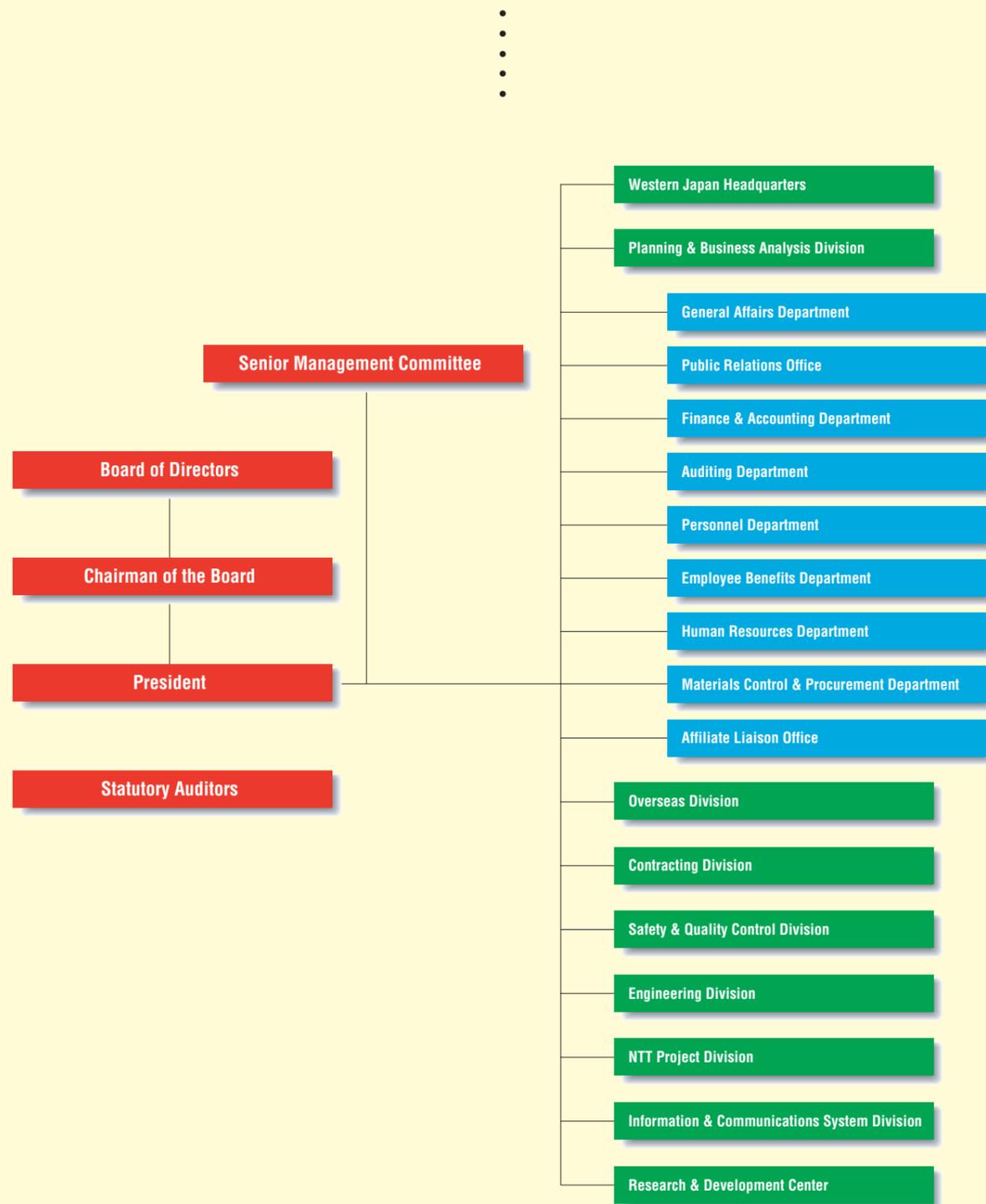
Total Assets  
 (¥ Billions)



Net Income per Share  
 (¥)



**ORGANIZATION CHART**  
As of July 1, 1999



**CORPORATE INFORMATION**  
As of March 31, 1999

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

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

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

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

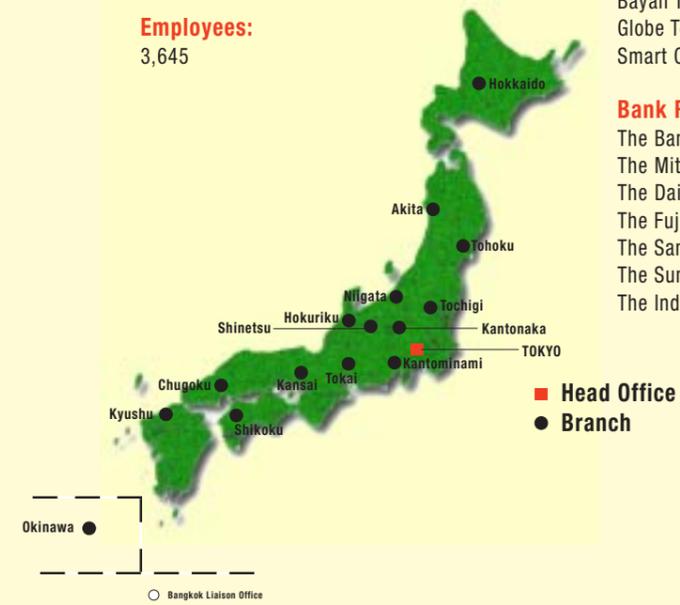
**Establishment:**  
1951

**Paid in Capital:**  
¥27,983 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:**  
3,645



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

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

**CORPORATE DIRECTORY**

*Nippon COMSYS Corporation  
As of March 31, 1999*

<b>Company Name</b>	<b>Principal Business</b>	<b>Paid-in Capital</b>	<b>Percentage Owned (%)</b>
<b>Consolidated Subsidiaries</b>			
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
<b>Major Non-Consolidated Subsidiaries</b>			
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
<b>Major Affiliates</b>			
<b>Domestic:</b>			
Tokyo Tsuken Co., Ltd.	Construction of telecommunications facilities	¥54 million	39
Nitto Tsuken Co., Ltd.	Construction of telecommunications facilities	¥60 million	33
<b>Overseas:</b>			
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	P12,500 thousand	30
CMC Engineering SDN. BHD.	Technological consulting and engineering services	RM1,053 thousand	56 .57



# Nippon COMSYS Corporation

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

Telephone: 81 (3) 3448-7031