



We



*Listen,*



*Understand,*



*and*



*Make it Work.*



*Serving Customers Better*

**NTT DATA CORPORATION**  
**Annual Report 2000**

Fiscal Year Ended March 31, 2000

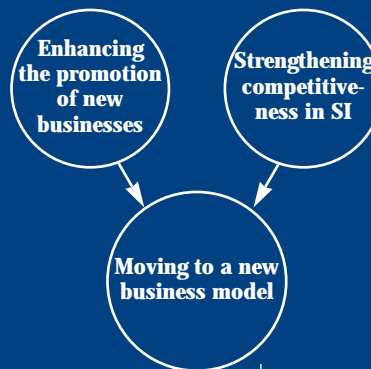


## NTT DATA - Past, Present, and Future

NTT DATA CORPORATION's earliest incarnation was as an internal department, the Data Communications Bureau, of the then wholly publicly owned Nippon Telegraph and Telephone Public Corporation. Originally set up in October 1967, the Company was reestablished in May 1988 as a wholly owned subsidiary of Nippon Telegraph and Telephone Corporation (NTT), and since then has been developing its business as Japan's leading provider of information systems and computer networks.

### Our Business, Our Prospects

NTT DATA's principal businesses are centered around interlocking and complementary areas. In its System Integration (SI) business, the Company—in consultation with individual customers—develops, sells, leases, and services data communications systems. In the Network System Services business, the Company provides a variety of information, data-processing, and other services based on computer networks typified by the Internet. The Company is also developing businesses in such areas as data communications system proposals and planning, maintenance, facility management, and research and analysis of customer operations. In addition to the sectors that have been our traditional bastions of strength—the public administration and financial sectors—we are also focusing our energies on expanding into new areas, such as Internet-related business. NTT DATA is not confined to being a mere solutions provider—we are skilled at forecasting market and consumer trends and aim to be a corporation that can create and offer completely new businesses.



### Cautionary Statement Regarding Forward-Looking Statements

This annual report contains forward-looking statements concerning NTT DATA's future plans, strategies, and performance. These forward-looking statements are not historical facts; rather, they represent assumptions and beliefs based on economic, financial, and competitive data currently available. Forward-looking statements include information preceded by, followed by, or that include the words "predicts," "expects," "anticipates," "could," "may," or similar expressions. Furthermore, they are subject to a number of risks and uncertainties that, without limitation, relate to economic conditions, fierce competition in the information service industry, customer demand, tax rules, regulations, and other factors. Readers of this annual report are cautioned not to place undue reliance on these forward-looking statements. NTT DATA therefore wishes to caution readers that actual results may differ materially from its expectations.

### Contents

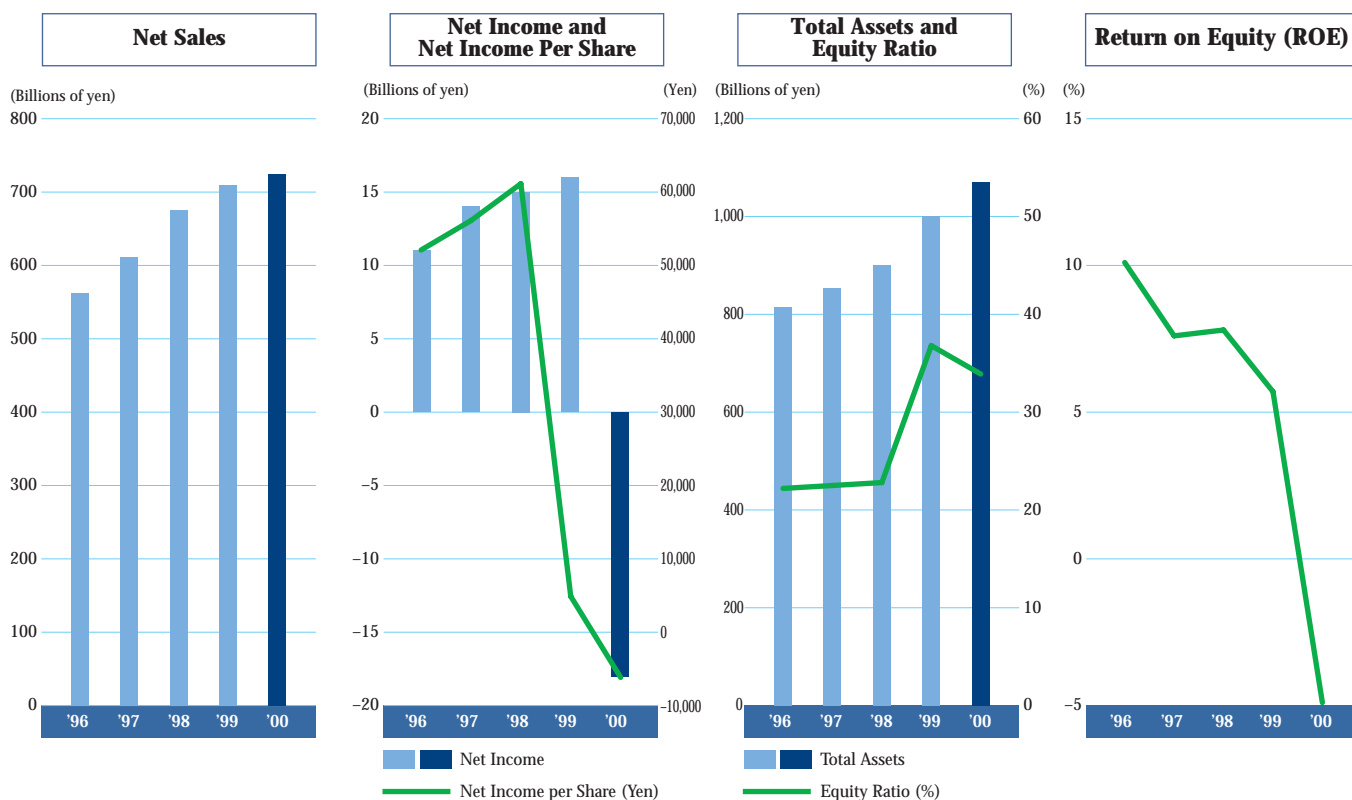
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# Consolidated Financial Highlights

NTT DATA CORPORATION AND SUBSIDIARIES  
Years ended 31st March

|                                                                                             | Millions of yen |           |                  | Thousands of U.S. dollars |
|---------------------------------------------------------------------------------------------|-----------------|-----------|------------------|---------------------------|
|                                                                                             | 1998            | 1999      | 2000             | 2000                      |
| Net Sales                                                                                   | ¥ 676,581       | ¥ 710,152 | ¥ <b>725,348</b> | \$ <b>6,842,906</b>       |
| Operating Income                                                                            | 54,197          | 56,833    | <b>50,738</b>    | <b>478,660</b>            |
| Income (Loss) before Income Taxes                                                           | 34,275          | 37,747    | <b>(29,177)</b>  | <b>(275,255)</b>          |
| Net Income (Loss)                                                                           | 15,612          | 16,313    | <b>(18,114)</b>  | <b>(170,887)</b>          |
| New Orders Received                                                                         | —               | —         | <b>714,882</b>   | <b>6,744,170</b>          |
| Total Assets                                                                                | 900,693         | 1,002,805 | <b>1,071,653</b> | <b>10,109,934</b>         |
| Total Shareholders' Equity                                                                  | 205,799         | 369,244   | <b>363,758</b>   | <b>3,431,679</b>          |
| Capital Expenditures                                                                        | —               | —         | <b>210,375</b>   | <b>1,984,670</b>          |
| Depreciation and Amortization/Loss on Disposal<br>of Property and Equipment and Intangibles | —               | —         | <b>152,525</b>   | <b>1,438,915</b>          |
| Research and Development Expenses                                                           | 15,874          | 14,042    | <b>22,684</b>    | <b>214,000</b>            |
| Return on Equity (%)                                                                        | 7.8             | 5.7       | <b>(4.9)</b>     | —                         |
| Free Cash Flow                                                                              | —               | —         | <b>(23,763)</b>  | <b>(224,179)</b>          |
|                                                                                             | Yen             |           |                  | U.S. dollars              |
| Per Share:                                                                                  |                 |           |                  |                           |
| Net Income (Loss)                                                                           | ¥ 61,708        | ¥ 5,905   | ¥ <b>(6,458)</b> | \$ <b>(60.92)</b>         |
| Cash Dividends                                                                              | 10,000          | 1,000     | <b>1,000</b>     | <b>9.43</b>               |
| Number of Employees                                                                         | —               | —         | <b>10,500</b>    | —                         |

Note: Yen amounts are translated into U.S. dollars, solely for convenience, at the prevailing exchange rate on 31st March, 2000, of ¥106=U.S.\$1.00.



Note: A change in par value from ¥50,000 to ¥5,000 went into effect on 1st August, 1998.  
Net income per share for the fiscal year ended 31st March, 1999 reflects the stock split at the beginning of the period.

## Message from the Management



**Tomeo Kambayashi**  
Chairman of the Board

**Toshiharu Aoki**  
President and Chief Executive Officer

### Operating Environment and Business Results

During fiscal 2000, ended 31st March, 2000, the Japanese economy remained parlous, characterized by a weak recovery in private-sector demand. However, thanks to the economic stimulus measures taken by the government since the previous fiscal year and the recovery of the economies of other Asian countries, a gradual improvement in the economy was seen. At the end of fiscal 2000, there were signs of recovery in corporate capital investment and indications that the economy was on a self-sustaining recovery track.

IT investment by corporations and other organizations is forecast to grow as the digitization of society continues apace and the Internet further permeates our lives. It is widely hoped that the information service industry, in which the NTT DATA Group operates, will act as a catalyst to kick-start economic recovery in earnest.

Against this background, the NTT DATA Group formulated two key policies: to enhance its management capabilities to improve investment efficiencies, the goal being to secure optimal profits; and to commit positively to new businesses for greater medium- and long-term expansion. We are developing our businesses while bolstering our close working partnerships with other companies in the NTT Group.

Sales for fiscal 2000 increased only marginally, and profits were negatively affected by the postponement of several service starts and the redesign of certain systems under development. The NTT DATA Group posted losses of ¥63.8 billion during the period under review due to changes made to the accounting procedures concerning reserves for employees' retirement benefits, made in preparation for the March 2001 introduction of new accounting standards relating to employees' retirement benefits, and the application of deferred tax accounting, as well as changes in accounting procedures regarding software in conjunction with the adoption of new accounting standards relating to R&D expenses, reflecting the arrival of fair-value accounting in Japan.

As a result of these factors, consolidated net sales in fiscal 2000 increased ¥15.2 billion, or 2.1%, to ¥725.3 billion, operating income declined ¥6.1 billion, or 10.7%, to ¥50.7 billion, and net income deteriorated ¥34.4 billion as net losses amounted to ¥18.1 billion.

**NTT DATA Mid-Term Management Policy—Aiming to Create New Businesses**

As more and more computer manufacturers become involved in the solutions business, NTT DATA is being forced into fiercer competition in its specialty, the System Integration (SI) business. With the Internet's expansion and diffusion into previously unimagined areas, customer requirements and desires are continually changing. In fact, the very way that business is conducted is being altered as the pace of technological progress continues unrelenting and business-to-business (B2B) and business-to-consumer (B2C) environments change dramatically.

Fully aware of the situation, we formulated and are currently implementing the NTT DATA Mid-Term Management Policy, which charts the course ahead for our operations over the next three years, through March 2003. The policy's design is for NTT DATA to attain sustained growth and development and to create new businesses that anticipate changes to come.

**From a Solutions Provider to a Service Provider and IT Partner**

The essential point behind the NTT DATA Mid-Term Management Policy is this— as we aim to enhance our competitiveness in our core competency, the SI business, we are developing our business on three fronts. The traditional SI business represents one of these fronts, and we are opening up two other fronts, as a "Service Provider" with a substantial and devoted client base, and constructing a dynamic platform from which to respond to changes

in technology and the markets, and an "IT Partner," a business-creating powerhouse, both in alliance with our customers and independently.

The policy envisages us becoming a major player by creating and expanding an IT market for and by ourselves while looking for synergistic effects between these three businesses and moving to a new business model from our previous solutions provider earning model, which only focused on our traditional SI business.

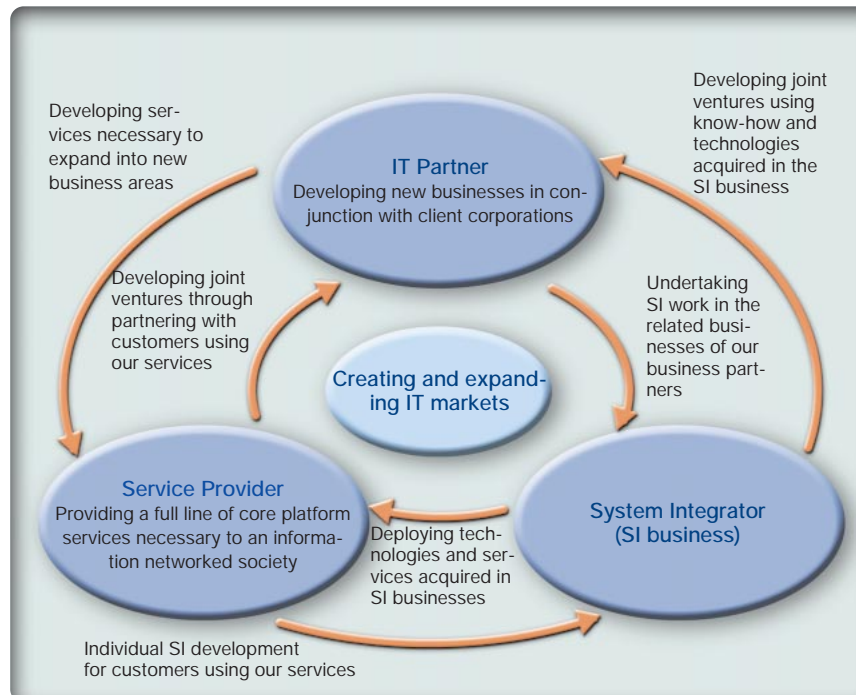
We believe that we have to think about and provide B2B from the point of view of individual consumers, looking at B2C trends and constantly forecasting with precision how consumers—the customers of our customers—will change, the better to cultivate our own B2B business.

**Creating Internet-Related and Other New Businesses**

The NTT DATA Mid-Term Management Policy focuses the Company's priorities on the swift establishment of Internet-related and other new businesses. In promoting this objective, we are devoting our energies to initiatives that will make us a respected Service Provider and IT Partner.

As a Service Provider—having assembled and vertically integrated a full line of services vital to the functioning of a networked society in such areas as data-center and security services by providing optimized services to our customers—we differentiate ourselves from competitors. We are providing quick response and maneuverable services, mainly through subsidiary companies.

NTT DATA's Business Value Chain



We are considering moving into such businesses as settlement portals, which would leverage our traditional strengths in network infrastructure, which are evinced by such systems as ANSER and CAFIS.

Moreover, as an IT Partner we are concentrating our efforts on the creation of previously untapped businesses through joint investments and business alliances with our customers. We have just begun to explore business development in this field through such tie-ups as an outsourcing subsidiary we plan to set up with First Data Corporation, a major credit card company, and a leading credit process-outsourcing company, and with several large construction companies we have set up a joint venture company called Construction-ec.com Co., Ltd., in the launching of an Internet-based marketplace for construction materials.

The growing popularity of the Internet is unstoppable, and has even begun to affect the way that consumers live their lives. For us, what is important is being able to anticipate the direction in which things are moving. To launch new Internet-related businesses, NTT DATA is impelled to consider every business measure at its disposal, from M&A to alliances with powerful outside players that have matching technologies. The Company must also focus on the development of advanced technologies, based on a clear and unerring evaluation of market and technology trends.

Accordingly, we are making ample investments in new businesses by improving our free cash flow through the rapid realization of enhanced cash flow arising from our SI business and by means of off-balance-sheet financing, such as improving the liquidity of assets as well as operation management based on cash flow.

We expect, through the promotion of new businesses, to also enhance our SI business and attract new customers in our existing public administration, financial, and industrial business sectors, securing an even more advantageous position in the market.

## Enhancing Shareholder Value

The environment in which the NTT DATA Group operates is distinguished by the emergence of new business opportunities brought about not only by the Internet, such as the application service provider (ASP) business, but also by a rash of new entrants from other business sectors—and the transformations are only going to become more pronounced.

Against this backdrop, the NTT DATA Group is striving to improve growth and profitability through promoting and enhancing its new businesses by anticipating changes on the horizon. We are also working to further improve our competitive strength in our SI business and pressing ahead with initiatives that will raise productivity and improve cost ratios.

Emphasizing improved capital efficiency and the importance of shareholder value, the NTT DATA Group has added return on equity (ROE) and free cash flow indexes to its traditional yardsticks—of management success, net sales, new orders received, and ordinary income. In this way and others, we are promoting heightened management awareness of shareholder value.

We are endeavoring to enhance corporate value across the entire NTT DATA Group by pushing steadily and confidently ahead with these programs. We look forward to the continued support of all our shareholders in our efforts.

August 2000

Tomeo Kambayashi  
Chairman of the Board



Toshiharu Aoki  
President and Chief Executive Officer



*We Listen, Understand, and Make it Work.*

The IT revolution is unfolding on a global scale. For the management of corporations everywhere, IT is one of the principal factors shaping the future of business. There is little doubt that in the 21st century, too, the information services industry is going to be one of the fastest growing industries around.

Management of corporations is becoming more efficient and high-value-

added, and people's lives are becoming ever more comfortable as new services made possible by IT blossom.

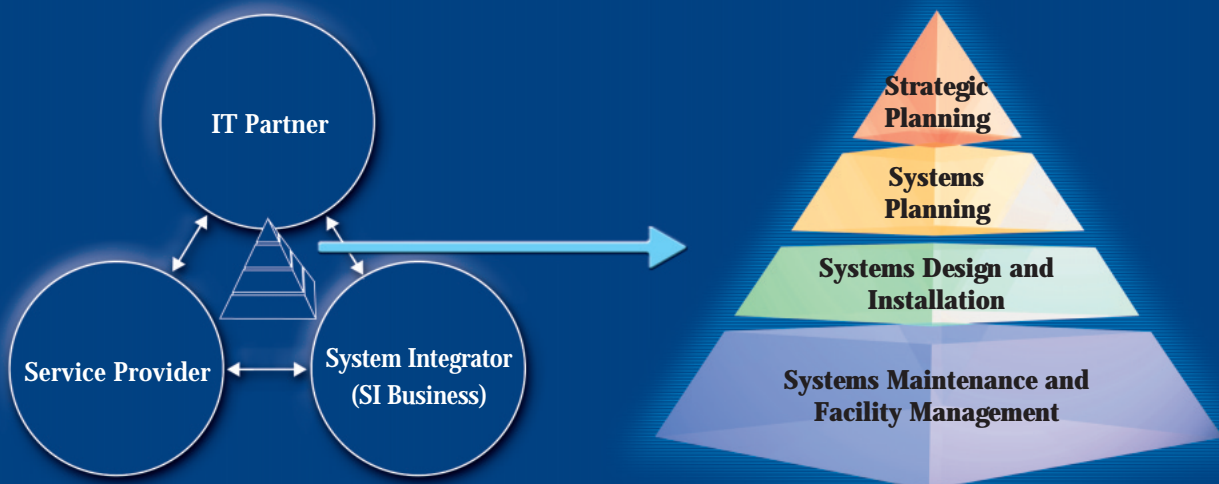
NTT DATA is responding quickly and decisively to changes in the market and the demands of our clients by deploying in new areas the strengths we have acquired through being Japan's top corporation in

the information services industry. Our track record in large-scale systems construction in financial, public administration, and other sectors is proof positive of our project management capabilities. We have the technological resources and the business-model solutions to succeed in

today's growth industries—typified by the Internet. What is more, we are reaping the syn-

ergistic benefits that come from a variety of tie-ups with companies in the NTT Group. Exploiting these advantages to the fullest, NTT DATA will in the future be doing everything in its power to secure an unchallenged position as the industry leader.

**From a Solutions Provider  
to  
a Service Provider/  
IT Partner**



While bringing into full play the synergies available from our three types of businesses, we are developing business both upstream and downstream.

# NTT DATA—Supporting the Large-Scale Systems That Support Society and the Economy

## *Positioned for Growth*

### NTT DATA's Principal Systems in Public Administration, Financial, and Industrial Sectors

#### Public Administration Sector

Central government agency systems

Administrative Value-Added System on NTT DATA's Resident Information System Municipality (ADVANCE RISM) Concept

Electronic application systems, electronic procurement systems, document management systems

White paper database systems and clearing systems

Wide-area disaster and emergency medical information system (WHEMS-EMwad)

Medical Intelligent Network System—Heartful, Open, and Total (MINS-HOT)

Care Management Network System (Kagayaki Plan)

Emergency Management Information System (EMIS)

Integrated Road Information System (ROADLAN)

Map Information System with Geographic Information System (GIS) Engine (MAP-Value)

#### Financial Sector

The *Zengin* Data Telecommunications System

Bank of Japan Financial Network System (BOJ NET)

Automatic Answer Network System for Electrical Requests (ANSER)

Credit and Finance Information System (CAFIS)

Banks Cash Service (BANCS)

Multintegrated Cash Service (MICS)

Life Insurance Network Center (LINC)

Strategic & Advanced Multishared Regional Banking System (STAR-ACE)

The Tokyo International Financial Futures Exchange System

Global Risk Management System

#### Industrial Sector

Japan Drug Network System

TWIN'ET- Multimedia Value-Added Network (VAN)

Next-generation corporate information systems using enterprise resource planning (ERP), enterprise application integration (EAI), and supply chain management (SCM)

Integrated circuit (IC) identity card systems

Systems for communication and broadcast businesses

Systems for newspaper and advertising businesses

Systems for construction and distribution businesses

Entertainment systems

As we usher in the 21st century, the information services industry is continuing to register impressive expansion—undoubtedly, it is one of the growth industries of the future. For the management of major enterprises, IT is a crucial weapon in the arsenal of corporate strategy and has indisputably become an important way for corporations to add value to the goods and services they provide.

As the top corporation in the Japanese information services industry, with ample reserves of know-how and trust, peerless project management skills, and excellent access to capital, NTT DATA boasts overwhelming superiority in the construction of large-scale systems, a high-cost-of-entry business. NTT DATA is a pioneer in the development of such advanced systems, the very basis of economy and society, engaged as it is in the development and installation of networks that underpin the infrastructure of Japanese financial institutions, such as the *Zengin* Data Telecommunications System, as well as information systems in the public sector for—among other bodies—the central government, local authorities, and medical institutions. In the areas of pensions, insurance, and savings, which affect all of us in such a direct way, NTT DATA services are helping users cut through the red tape and raise the standard of service that they offer. The economic and social environment in which the customers of our systems operate is constantly in flux, and IT is advancing into areas undreamed of even a few years ago. For all these reasons—and more—users of our systems need to constantly upgrade their systems to keep abreast of the times. NTT DATA's

# We Listen,



accumulated reserves of know-how, stable service provision capabilities, and renowned reliability are the strengths that secure repeat orders from customers looking to upgrade their systems.

In the year ended 31st March, 2000, on a non-consolidated basis, net sales were ¥716.4 billion, of which approximately 45% were in the public sector, a secure and reliable earnings base. New orders received in the public sector expanded, from approximately 45% of total new orders of ¥660.0 billion in the year ended 31st March, 1999 to approximately 55% of total new orders of ¥704.7 billion. Total backlog orders increased from ¥1,359.1 billion to ¥1,397.1 billion over the same period and, of those backlog orders, the proportion generated by the public sector was 65%, virtually unchanged from the previous fiscal year but representing an increase in monetary terms.

The environment in which the information services industry operates continues to be a tough one as more and more companies from other sectors enter the IT industry and demands from customers for lower prices become more insistent. However, as the Japanese government rushes to promote computerization, demand from the central government, local authorities, the medical system,





## Understand,

and other public-sector institutions—together with demand from financial and other private sectors—is expected to continue to be robust. Against this backdrop, NTT DATA is aiming for further increases in profitability through cost ratio and productivity improvement initiatives.

NTT DATA has been engaged in such public-sector and financial-sector projects as the *Zengin* Data Telecommunications System, which links approximately 2,900 financial institutions across Japan and facilitates interbank exchanges, and the Wide-area disaster and emergency medical information system (WHEMS-EMwad), which has networked the emergency medical information systems among most prefectures and is designed to support relief and rescue operations in the

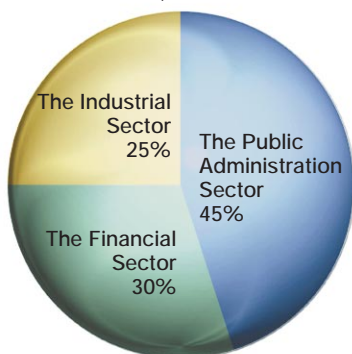
event of a major disaster covering an extensive area. This system was developed based on the urgent recommendations of the research committee formed to improve the readiness of Japan's medical system for a disaster, prompted by the Great Hanshin (Kobe) Earthquake of 1995. NTT DATA has also been engaged in the supply of numerous systems to central government bodies in such areas as finance, customs, transportation, and computerized applications.

In addition to our work toward the realization of a paperless electronic government, we have been focusing on the construction of the NTT DATA Banking Center for Regional Banks, in which six regional banks are participating as of June 2000.

The banks participating in the Center have between them approximately ¥16 trillion in assets, and it is already the largest center of its kind in Japan. The Center offers the latest system functions compatible with such next-generation systems as a centralized customer information system that enables banks to undertake more efficient marketing, flexibility in an era characterized by the emergence of such new delivery channels as the Internet, and security measures that comply fully with security standards established by supervisory agencies and other bodies. The

results of a detailed investigation that commenced in October 1999 show that the Center operates at about half the cost of most current systems. The results also confirm that the banks using it have been able to secure for themselves on a permanent basis the very latest features. NTT DATA constructs and operates such centers by leveraging its superlative track record and many years of experience in the field, having built and run not merely account systems for numerous major regional banks but also shared systems for *Shinkin* banks and credit associations, life insurers, and the *STAR* series of centers for regional banks. NTT DATA's role is not confined to being a systems outsourcer. In IT strategies, too, NTT DATA offers its customers specific proposals and suggestions through tie-ups with other NTT Group companies and major consulting corporations, and it is forging ahead with the construction of shared infrastructure in the busily reorganizing world of finance.

NTT DATA Net Sales by Sector  
(as of March 2000)



## New Businesses—Coming to Grips with Fast-Paced Market Changes

### Soaring to New Heights

#### NTT DATA's Principal Service Systems in Internet-Related or Advanced Information Network Services

orderit, an office supply procurement service for corporations

i.commerce sellside, an e-commerce package solution

Machiko, an on-line marketplace and virtual community for women

magnet, a cyber community for children and parents

GAMER'S DREAM, a multiplayer, members-only network game service

Sankenjin, a healthy lifestyle promotion service

IC identification card multisolution

DreamNet, an Internet service provider, in conjunction with NTT DoCoMo, Inc.

InterVia, an Internet service provider for corporations

ASPORT, an applications service provider

Hosting and housing services

Easy&Safe, a comprehensive security service

DBN, a network provider service

NI+, a network integration service

Platform system for digital broadcasting

Marketing Analysis and Planning System (Meal MAP)

Intercompany e-commerce systems

The markets in which NTT DATA does most of its business have undergone drastic changes in the last two years. The biggest change of all has been the explosive increase in use of the Internet. It has made its way into our everyday lives, and customer expectations and entire industries have been forever changed. Our customers' business processes are changing and the whole structure of the industry is in upheaval.

As these changes advance, new business opportunities arise. It is no longer enough to follow the traditional pattern of merely offering solutions by responding to individual needs; what is needed is a mold-breaking service provider paradigm. NTT DATA, as a leading corporation in Japan's information services industry, has accumulated the know-how that matters

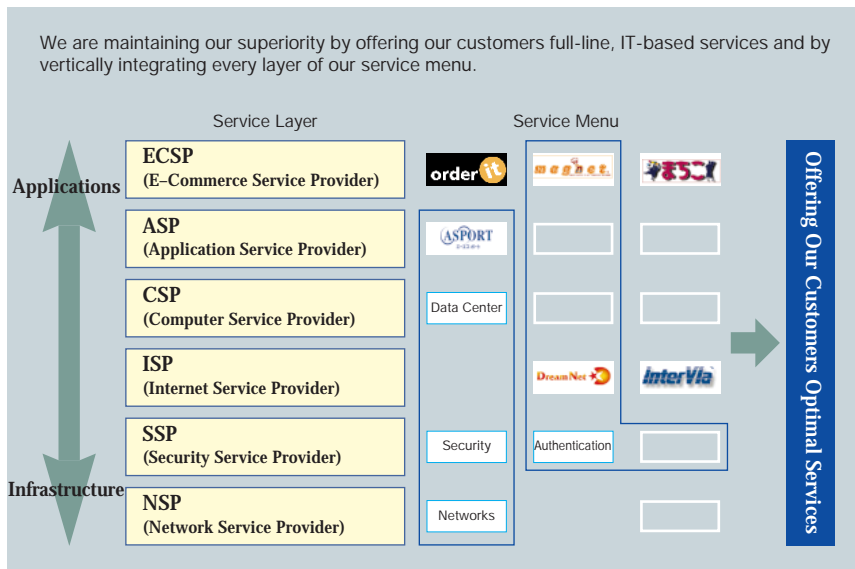


in the construction of large-scale systems deploying SI. In search of new growth, NTT DATA is constructing a new business value chain revolving around the Internet, bringing its customers full-line services as a Service Provider and developing its business Groupwide. With these core strategies, NTT DATA is actively investing management resources in new areas.

We are aiming for an expansion of the fields in which we as a Group do business by enhancing the competitiveness of both NTT DATA and our subsidiaries, strengthening our new business profile through M&A and alliances, and establishing subsidiaries according to function. At the same time, we are looking to optimize the distribution of management resources and rebuild our internal business portfolio.

In Internet-related businesses, we have already begun to advance our various Service Provider businesses, in particular our Internet service provider (ISP) and application service provider (ASP) businesses. Of particular note are our ISP, DreamNet, and office goods procurement service for corporations, "orderit." In these and dozens of other ways, NTT DATA is delivering results in e-commerce business solutions.

#### NTT DATA, Service Provider





## *and Make it Work.*

In the computer service provider (CSP) and security service provider (SSP) fields, too, NTT DATA is establishing a firm business foothold. Specifically, as a CSP we are moving ahead with the construction of a large Internet data center that will host and manage servers of clients who are expanding their own e-commerce and ASP businesses by leveraging our network and data center buildings. Services are expected to commence in October 2000. We plan to offer highly reliable service covering all the bases, including ASP functions, through alliances with companies with the right technology as well as the deployment of our experience and know-how as a large-scale system integrator.

As one of Japan's foremost SSPs, we are putting into place a 360-degree security service. This will uniquely position us to respond to the growing security needs that come hand-in-hand with the ever-evolving Internet and are required to protect corporate computer systems from every kind of menace, including improper accessing of sensitive information. Specifically, we are working in close collaboration with NTT DATA Security Corporation, a joint venture set up in partnership with Trend Micro Inc., Hitachi, Ltd., Cisco Systems K.K., and other leading information content

security companies. This collaboration will enable everything from the drafting of security policy plans to system design, construction, management, surveillance, auditing, and diagnosis—comprehensive service supporting every aspect of our corporate customers' information systems security throughout the life cycle of the system.

Although these new businesses have extremely promising growth potential, competition is intensifying with the entry of more and more businesses from other

sectors and we anticipate that it will take a few years before these promising businesses begin to make a significant contribution to profits. However, by adapting to market trends, applying the latest technology to our existing SI business, and expanding into new businesses, such as those that exploit the potential of the Internet, we are adding value to the services we offer and establishing a comprehensive circle linking our existing and new business areas. All of this is helping to secure an even brighter future for the NTT DATA Group.

### Alliances as an IT Partner

In August 2000, NTT DATA, together with six other companies—Kajima Corp., Shimizu Corp., Taisei Corp., Obayashi Corp., Takenaka Corp., and Oracle Corp. Japan—established Construction-ec.com Co., Ltd., a joint venture to build a construction materials Web site and marketplace on the Internet. From December 2000, the joint venture will provide marketplace services using the Internet to support the lease and rental of material and equipment for temporary and permanent construction, from estimates to orders, billing, and payment. Collectively, we are aiming to bring together NTT DATA's coordinating skills, IT capabilities, and the construction business know-how of major general contractors as well as make the procurement of construction materials and equipment a more open process, thereby setting a new standard for the industry.

NTT DATA has reached an agreement with U.S.-based First Data Corporation, the world's largest credit card outsourcing company, DC Card Co., Ltd., a major credit card company, and Diamond Computer Service Co., Ltd., to carry out research and preparations for establishing a joint venture offering outsourcing services in Japan to domestic credit card companies. By combining NTT DATA's IT competencies and the know-how of its partners, we will provide competitively priced, high-quality outsourcing services to the credit card market, where growth is continuing but competition is intensifying. Our goals are to capture 30% or more of the domestic market in terms of numbers of cards issued within five years and for the joint venture to be the largest outsourcing service company in Japan.

## Review and Outlook

The NTT DATA Group previously has not released segment information by business type because the Group provides services relating to data communications systems, a single segment. From the fiscal year under review, however, we determined that in the interests of providing you, our shareholders, with more useful information concerning our activities, we would divide services relating to data communications systems into three segments—System Integration, Network System Services, and Others—chosen in consideration of the similarity of the markets and the type and nature of the services we offer. The reason these particular segments have been chosen is closely allied to the effective implementation of NTT DATA's current management policies, which stress enhancing the Group's presence in new business areas and further

strengthening its competitiveness in the SI business.

### System Integration

The System Integration (SI) Business develops data communications systems, sells and leases them, and provides system integration and other services, all in alignment with the needs of individual clients.

In the period under review, this Business continued to offer its traditional customers stable and reliable services, upgrading their existing systems where requested, and also furnished customers with entirely new systems.

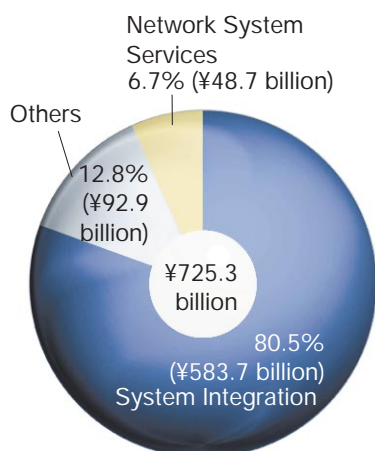
As a result, in the year ended March 2000, net sales to external customers amounted to ¥583.7 billion and operating income amounted to ¥53.4 billion.

The SI Business is the NTT DATA Group's earnings engine, but competition

in the industry is likely to grow fiercer in the coming months and years as businesses from other sectors enter it in increasing numbers and customers demand ever more competitive prices. The NTT DATA Group is aiming to strengthen the Business's competitiveness by cutting costs and establishing policies designed to expand earnings further.

Specifically, we are developing this Business by placing more stress than ever before on a program of selection and concentration. We are offering more high-value-added services by strengthening upstream processes in cooperation with businesses both inside and outside the NTT Group. We are also making the best use of our strengths in preexisting business areas, exemplified by our activities in the public administration sector and the provision of account settlement

### ● Composition of Net Sales to External Customers



For the year ended 31st March, 2000

| Segment by Business Type | Main Products and Services                                                                  | Net Sales (billion ¥) | Operating Income (billion ¥) |
|--------------------------|---------------------------------------------------------------------------------------------|-----------------------|------------------------------|
| System Integration       | Data Communications Service for specific customers and Systems Development Service          | 586.8                 | 53.4                         |
| Network System Services  | CAFIS, ANSER, Internet-related business, line resale, and other businesses                  | 49.1                  | 4.6                          |
| Others                   | Consulting, maintenance, operation, installation, facility management, and other businesses | 103.5                 | 6.2                          |
| Elimination or Corporate |                                                                                             | (14.1)                | (13.5)                       |
| <b>Consolidated</b>      |                                                                                             | <b>725.3</b>          | <b>50.7</b>                  |

networks in the financial sector. By turning alliances and M&As to good account, we are entering previously uncharted business areas, expanding the types of customers that we serve, and realizing an early acquisition of know-how. By taking such measures, we are aiming for a general expansion of scale, making our SI base firmer than ever before.

At the production stage, as part of our cost-cutting activities, we are pressing ahead with policies that will increase productivity and improve initial costs, and we are simultaneously introducing rigorous risk management methods. Across the Group, we are carrying out structural reforms in our regional businesses and operating and maintenance businesses as well as sharing tasks more efficiently with our subsidiaries. We are also paring costs by expanding outsourcing in our back office departments and consolidating departmental functions.

We anticipate that net sales to external customers in the next fiscal period will rise year on year approximately 8%, to ¥631 billion, reflecting a steady rise in new orders received as of 31st March, 2000.

### **Network System Services**

In line with the demands of the market, the Network System Services Business provides such services as information provision, data processing, and other services, with the base of its business focused on such computer networks as the Internet.

In the period under review, the Business worked hard to strengthen its ISP business and directed its attention to the construction of a new business model.

As a result, in the year ended 31st March, 2000, net sales amounted to ¥48.7 billion and operating income amounted to ¥4.6 billion.

The NTT DATA Group has high hopes for the substantial future growth of new business, particularly in Internet-related and network systems, and is consequently taking steps to reconstitute its business portfolio, optimize the allocation of its management resources, and form alliances with other companies. Specifically, we established a team to formulate a new business model and we are currently looking to strengthen the functions of developing new business models. At the same time, we have reviewed our traditional operational system, which was divided by customer market, and established an organizational framework to facilitate expansion into new business areas efficiently and effectively while responding to requirements that cut across market types.

Moreover, the Business is aggressively expanding into such new fields as the Service Provider and IT Partner fields through collaboration with subsidiaries and affiliates, independently managing developments with speed and purpose. We are fostering a business environment that makes innovation possible and creating an environment in which new businesses can be launched by consolidating the infrastructure sections and back office operations of internal company ventures.

We predict that net sales in this Business will rise approximately 9% year on year, or ¥53 billion, due to the growth of new Internet-related business.

### **Others**

The NTT DATA Group's Others Business researches, identifies, and evaluates customers' management issues, plans and provides solutions on the optimization of data communications systems, performs maintenance and facility management, and provides other related services.

In the period under review, the Others Business was proactively engaged in consulting work and achieved systems stabilization through network and terminal operation and maintenance.

As a result, in the year ended 31st March, 2000, net sales amounted to ¥92.9 billion and operating income amounted to ¥6.2 billion.

We anticipate that prospects for the next period will be vulnerable to a decrease in sales in certain parts of our systems management and maintenance-related business, and that, as a result, net sales will fall 3% year on year, to ¥90 billion.

# Review and Outlook by Sector

We continue with our analysis by looking at how our three business segments—System Integration, Network System Services, and Others—performed collectively in the four principal sectors in which NTT DATA operates.

## Public Administration Sector

In the year ended 31st March, 2000, the Company achieved its targets in the Public Administration Sector for net sales and the amount of new orders received.

This was made possible by our efforts to secure new business in SI services, in addition to our trailblazing move into peripheral businesses, as well as steady orders for upgrades of existing systems and large-scale systems, demand for which was supported by heavy investment in IT on the part of the central government, local authorities, and other public agencies. In September 1999, NTT DATA set up a Public Administration Community Business Sector, a new organization, to expand its services for local authorities and industries.

Government investment in IT is expected to rise, based on the continuing trend toward expansion, supported by the December 1999 delivery by the Virtual Agency task force to the Prime Minister of a final report on the desirability of a shift to a wired, paperless administration and the importance that is being attached to an important agenda called the “Millennium Project,” which brings together academics, industrialists, and civil servants to advise on policies for the new millennium in IT and other areas.

NTT DATA strongly supports the agenda, and is making active proposals and plans to introduce paperless administration, electronic applications, and electronic procurement, making “Electronic Government” and “Electronic Municipalities” its watchwords.

### ● What is “Electronic Government”?

“Electronic government” as a concept refers to the computerization of the services that government and municipalities provide and the delivery of these services by means of computers and networks.

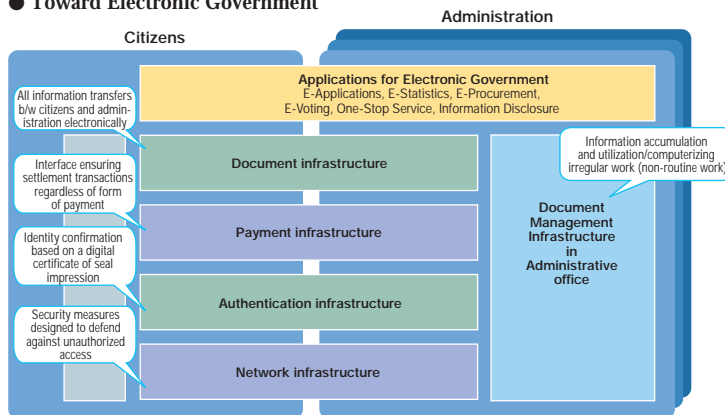
## Financial Sector

During the year ended 31st March, 2000, net sales in the Financial Sector were brisk as demand for upgrades of existing account systems was stable and the Company’s Network System Services Business was favorable. The target of new orders received was achieved as it secured a number of important new projects.

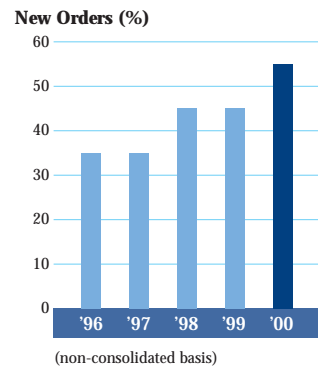
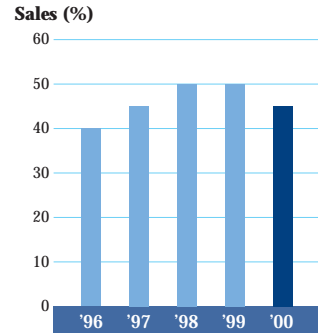
In the coming years, e-commerce is forecast to develop further and financial institutions to increasingly recognize the need to reduce costs in their core businesses while new entrants to financial business, stimulated by deregulation, make their presence felt.

NTT DATA plans to focus its attention on expanding sales of its shared systems, bringing into play the know-how the Company has accumulated in similar systems with a proven track record of success in the industry. At the same time, we plan to move into new financial network businesses in the capital market, debit

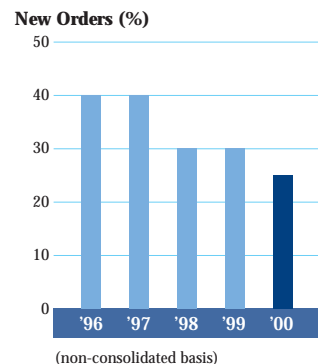
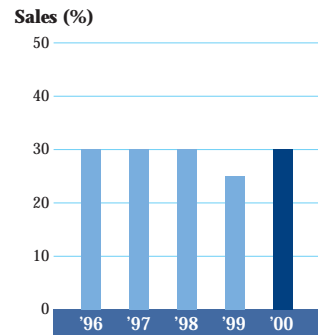
### ● Toward Electronic Government



## Public Administration Sector



## Financial Sector



cards, and Internet-based transactions, including Electronic Bill Presentment and Payment Service. These businesses are just a few of the areas we have earmarked for expansion.

● **Electronic Bill Presentment and Payment (EBPP) Service—Outline**

Through EBPP, customers can obtain information regarding their gas, water, electricity, and telephone bills, and can check their credit cards' itemized balance sheets, the current state of accounts they hold with financial institutions, and recent deposits and withdrawals on those accounts—all without having to leave home, thanks to the convenience of the Internet. They can even obtain guidance and information about services of interest to them from the companies concerned.

NTT DATA formed an "Internet Billing Information Service Consortium" with NTT Communications Corp. and Microsoft Corporation, in July 1999, and now is examining and planning an EBPP business model suitable for the Japanese market.

**Industrial Sector**

In the Industrial Sector, both new orders received and net sales were strong overall in the year ended 31st March, 2000, as the Company focused its efforts on courting new customers as well as orders for upgrading and replacing existing systems, having reorganized its operations according to industry type. In September 1999, the Company put in place an operational structure designed to carve out new Internet-related business and, in March 2000, established an operational structure to strengthen the Company's approach in enterprise application integration (EAI), which organically consolidates corporate data applications. We are looking for still greater success in enterprise resource planning (ERP), and to that end we acquired managerial control over a company with a proven track record in the field, relaunching it as NTT DATA Science Corporation in October 1999. We are also taking a fresh approach to platform systems for digital broadcasting, working hard to

realise our goal of making these systems the basis of a highly advanced system.

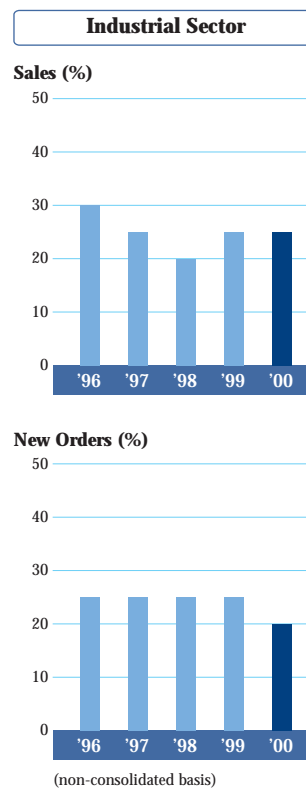
Looking to the future, we intend to bolster our position in next-generation corporate data systems by the intelligent deployment of ERP, EAI, supply chain management (SCM), and strategic consulting, and we will actively pursue the development of our Internet and platform systems businesses as well as the cultivation of new clients.

● **Platform Systems for Digital Broadcasting**

The digitization of broadcasting is giving added impetus to the development of truly interactive broadcasting. Digital broadcasting platform systems link the broadcaster, the audience, financial institutions, and the information provider (IP) or the service provider (SP), enabling the viewer to pay for items bought while TV shopping and also make requests for information about products seen on TV commercials from the comfort of his or her armchair as the platform system handles the transaction and account processing.

**Advanced Information Network Services Sector**

Net sales in the Advanced Information Network Services Sector were buoyant, supported by the expansion of the e-commerce market and the increasing number of Internet users. As the Internet continues to develop and spread at a breathtaking pace, the e-commerce market will expand still further. NTT DATA is optimistic about the potential of such new high-value-added Internet services as security provision relating to Internet usage by corporations in their mission-critical operations. Thus, NTT DATA is working hard to expand its field of operations by entering into such new business areas as Internet security provision, while seriously committing to its ISP business through the formation of a subsidiary, DreamNet Corporation, the subject of a joint equity investment with NTT DoCoMo, Inc. Moreover, NTT DATA is launching many other new services,



including ASPORT, an application service provider (ASP) for corporate business processes, and *Sankenjin*, a health promotion and lifestyle support service.

NTT DATA will organize its Internet-related businesses under the name xSP, and in the future will continue to be a full-line service provider in all information service settings.

● **Internet Service Provider (ISP)—DreamNet**

DreamNet is a major player in the Internet connection service business. Using the technological capabilities of NTT DATA and NTT DoCoMo, Inc., DreamNet offers highly reliable and user-friendly Internet access and a diversity of services perfectly suited to the needs of mobile phone users.

## International Business Strategy

Since its founding, the Company has aimed to seize new business opportunities and carve out new markets globally. We now have branches in the United Kingdom, Hong Kong, and Malaysia and wholly owned subsidiaries in the United States and China, and are striving to take our international business to new heights. Following are the key policies that will help us to achieve this:

- Linking international projects to our domestic businesses
- Localizing our overseas bases and using them as a fulcrum to develop our local businesses
- Collecting information and importing state-of-the-art technology from the advanced markets of the United States and Europe
- Promoting software development in Asia

### Business Operations in Asia

In Asia, where IT needs are growing explosively, we are making effective use of our local bases, such as our branches in Hong Kong and Malaysia as well as subsidiaries in China, and engaging in the development of systems that underpin modern society.

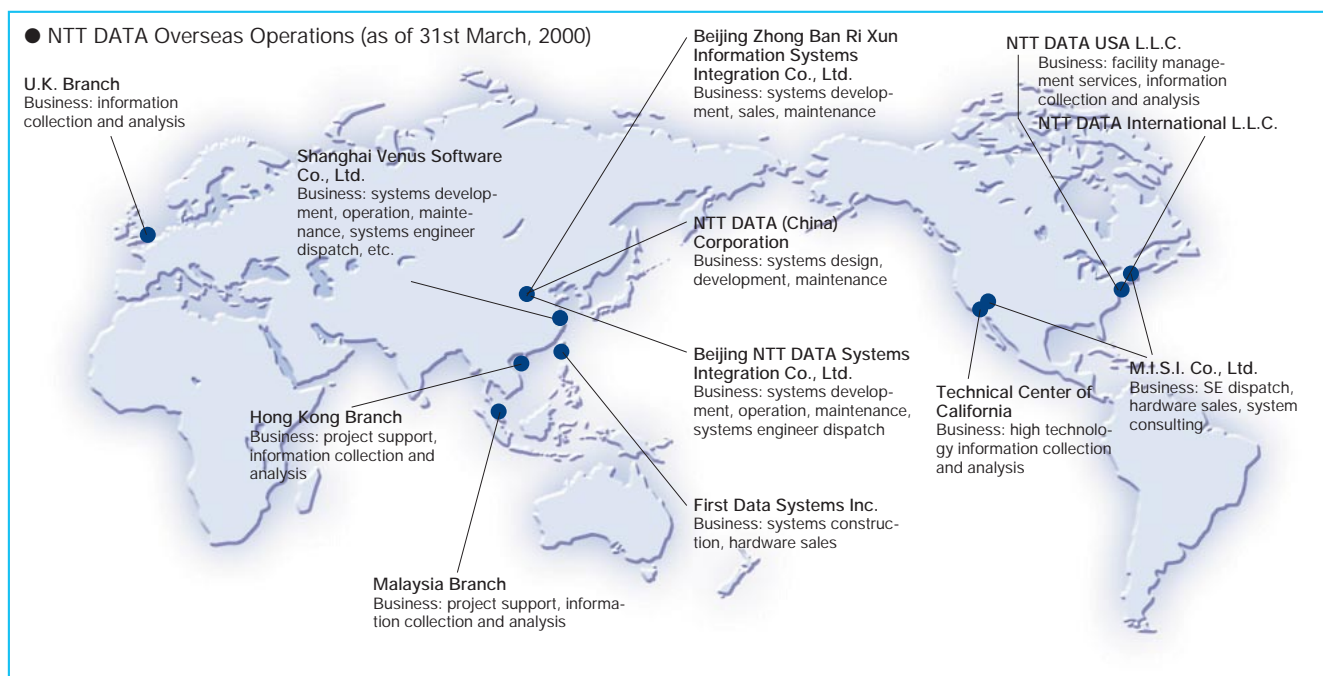
In China, NTT DATA has won a succession of important orders: in June 1994 for the Ministry of Posts and Telecommunications (MPT) Beijing Postal Financial Network System, in January 1995 for the National Postal Financial Clearance and Network System, in October 1995 for a smart ID card system for employees of the Beijing People's Municipal Government, and in November 1996 for the China National Automated Payment System for the People's Bank of China. NTT DATA has also been involved in information system trials for an intelligent building in Shanghai and in Electronic Road Pricing System trials in Hong Kong.

In Southeast Asia, the Company won an order for an intelligent database customs system in Indonesia in December 1997. The Company also won an order for an electronic procurement system for the Multimedia Super Corridor Project in Malaysia in July 1999, which is currently being developed and implemented.

### Business Operations in Europe and the United States

To build a U.S. base from which to nurture businesses linked to its domestic operations, in April 2000 NTT DATA made its U.S. branch a wholly owned subsidiary, NTT DATA USA L.L.C., and simultaneously established a U.S. holding company, NTT DATA International L.L.C., to supervise and manage the Company's subsidiaries in the United States.

NTT DATA also engages in a variety of joint R&D activities in Europe and the United States, which have highly advanced computer-related technologies, and imports world-class software packages from those countries.





The NTT DATA Group's R&D activities revolve around the Company's Research and Development Headquarters and Research Institute for System Science, where it forges ahead with an array of R&D programs to create new businesses.

NTT DATA has benefited from an R&D tie-up with NTT in the field of fundamental research. Putting the results of that R&D to effective use, the NTT DATA Group is concentrating its resources on applied R&D themes.

R&D expenses for the fiscal year totaled ¥22,684 million. The principal R&D activities in which the Group is currently involved are as follows:

#### **Opening Up New Business Fields**

##### Development Technology for a New Business Model Utilizing Information Networks

For businesses where the consumer rules, NTT DATA has been developing a technology that makes it easier than ever before to carry out consumer profiling, collect Internet site access information, and analyze the resultant data. We have also been working to develop a technology that optimizes document information usage, such as through the development of a model that computerizes administrative application and registration processes and makes possible "one-stop filing" on the Internet. This technology cuts across the jurisdictions of a number of ministries and renders separate filing with individual ministries a thing of the past.

We have also developed new techniques and components to quickly build Internet services.

##### Integration Technology for Social Systems

With the advent in Japan of digital broadcasting, we have been pursuing R&D in advertising services that blend telecommunications and broadcasting technologies as well as moving-image delivery systems for interactive broadcasting. We exhibited these systems at World Telecom '99, held under the auspices of the International Telecommunications Union, in Geneva, Switzerland. The Company is also conducting R&D on a system that in the event of a disaster will provide accurate, timely information on the state of events surrounding the disaster to increase safety and the speed of response in rescue activities. This will be accompanied by bringing together cartographic and satellite imaging data technologies to complement such existing information transmission technologies as telephone and data communications.

#### **Expanding the Foundations of Systems Architecture**

##### RASIS—Reliability, Availability, Serviceability, Integrity, Security

NTT DATA has evolved a highly effective design method, RASIS, through the analysis of the service risk of such large-scale, backbone systems as those used by banks for account services, an area that calls for high standards of reliability and operability, and through verification tests for reliability and availability. We are progressing with R&D in the provision of services that link multiple systems using NTT's distributed object software packaging technology.

We have also formulated guidelines for the development of highly secure systems based on ISO 15408 Common Criteria, international standards for the security appraisal of IT systems.

#### **Areas for Common Technology**

We are carrying out research in systems development with applications in smart ID cards equipped with integrated circuits (ICs) that can satisfy all the functions required of an identity verification system. In line with this, we are also conducting research in technology that can verify that an image is the original and not a copy by means of digital watermarks and surveillance features.

Today, there are increasing demands made on corporations to exist for more than the single-minded pursuit of profitable business; they are expected to fulfill their social responsibilities as members of a wider, international society by engaging in activities that do not directly contribute to profits. NTT DATA is in full accord with these demands, and energetically involves itself in environmental preservation activities as well as a broad range of social and cultural programs.

### Contributions to Society

NTT DATA's corporate philosophy stresses the importance of assisting in "the realization of happiness" and "the creation of culture" by adding value to information and contributing—through the Company's corporate social activities—to "building a new society, building the future." NTT DATA engages in a wide variety of cultural, social, and other activities based on this philosophy. They can be classified into four basic areas of endeavor—corporate donations, volunteer activities, sponsorship of artistic and other events, and environment-preservation activities. For instance, most of our employees participate in Christmas charity fund-raising activities, help promote the use of recycled products, conscientiously separate used paper from other rubbish for recycling, and donate computers made redundant by newer models to volunteer organizations or the handicapped.

In sponsorship of artistic activities, we have held classical music concerts, the NTT DATA Concert of Concerts, annually since 1995, a program of free classical music entertainment for the public. We are also active in our support and promotion of all manner of sports.

As a member of the communities where we operate, we also enthusiastically promote exchanges between our employees and local citizens. Every year, we hold courses for local citizens in Tokyo's Koto Ward, where our head office is located, and Meguro Ward, where our training institute is located, on how to use PCs for the first-time user or creating a home page for enjoying the Internet in daily life. We have also collaborated in hosting Company tours for junior high school students so that they can experience directly for themselves the rewards and importance of honest work—in this and many other, varied ways we conduct corporate social activities in line with themes that are specific to NTT DATA's corporate philosophy.

### Environmental Preservation Initiatives

The impact on people's daily lives of environmental destruction is growing, and corporations have a social responsibility to take action and deliver on policies to protect the environment. We are of the opinion that our information systems act as a substitute for the actual movement of people and commodities, and in that way reduce the burden placed on the environment and contribute directly and indirectly to environmental preservation. At the same time, it is undoubtedly true that in the construction of information systems a great deal of energy and resources are consumed, and the systems themselves have a not insignificant impact on the environment.

In light of this, NTT DATA regards it as imperative that, to fulfill its social responsibilities, it remain constantly aware of the need to protect the environment in the conduct of its business. We are concentrating our activities in three particular areas: obtaining ISO 14001 certification,

heightening environmental awareness among our staff, and raising the Company's presence in environmental issues.

In April 1998, we set up the Eco-Activity Promotion Office and, through this body, are developing our environmental preservation activities in such areas as electricity and paper conservation initiatives, green purchasing, the development of environment-friendly systems and materials—and the machines used in those systems—and the establishment of environment management systems (EMS.) These activities bore fruit when, in July 1999, NTT DATA's Headquarters, the Toyosu Center Building, and NTT Shinagawa TWINS Data Building acquired ISO 14001 certification. NTT DATA plans to extend the scope of such certification to include its other buildings in the Tokyo metropolitan area and its branches nationwide.



NTT DATA's Environmental Preservation Logo "The Kindness of the Earth"



# Financial Review

## Overview of Business Results

As was outlined earlier in this annual report, the volatile Japanese economic situation, the IT revolution—driving corporate computerization and increased appetites for investment—and the dramatic increase of new players, especially computer manufacturers involved in the information service industry, are all emblematic of the intensity of the changes taking place in the NTT DATA Group's business environment.

Against this backdrop, the NTT DATA Group formulated two key policies: to enhance its management capabilities so that more attention is paid to investment efficiencies, the goal being to secure optimal profits; and to commit positively to new businesses for greater medium- and long-term expansion. Simultaneously, we are developing our business through close working partnerships with other companies in the NTT Group. Specifically, we are moving into new businesses and pushing ahead with the expansion of the services we offer our clients in response to the imperatives of the times.

Reflecting our various initiatives, consolidated net sales for the year ended 31st March, 2000 edged up 2.1%, to ¥725.3 billion. However, as a result of a substantial amount of one-off losses associated with changes to accounting procedures introduced along with revisions to accounting standards, NTT DATA was obliged to record a net loss of ¥18.1 billion.

Free cash flow amounted to a net cash outflow of ¥23.8 billion, due to active capital investment to secure future profitability. Cash dividends paid to shareholders were unchanged from the previous term, at ¥1,000 per share, which include interim cash dividends.

As a consequence of thoroughgoing countermeasures taken by us as a whole to avert any potential Year 2000 problems, no malfunctions or other issues arose that had any significant effect on profitability.

## Sales

Consolidated net sales for the period under review amounted to ¥725.3 billion, a slight rise of 2.1%, or ¥15.2 billion, compared with the previous period, the marginal nature of the rise due to a tightening of service starts for large-scale systems and system upgrades, compounded by a rescheduling of some system service starts for the next fiscal period. Net sales to external customers by segment were as follows.

The NTT DATA Group's System Integration (SI) Business, which develops, sells, leases, and services data communications systems tailored to the needs of individual customers, reported net sales of ¥583.7 billion. The SI Business continued to offer its traditional customers stable and reliable services while providing upgrades to existing systems and also furnished customers with new systems. These efforts are reflected in the sales figures.

In line with market demands, our Network System Services Business provides such services as information provision, data-processing, and other services, with the base of its business focused on computer networks related to the Internet. In the period under review, we worked hard to strengthen our ISP business in this segment and directed our attention to the construction of a new business model. As a consequence, net sales amounted to ¥48.7 billion.

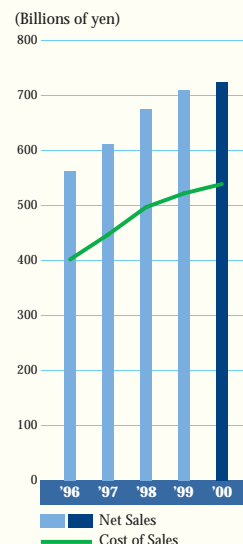
NTT DATA's Others Business is to research, identify, and evaluate customer management issues, plan and provide solutions on the optimization of data communications systems, perform maintenance and facility management, and provide other related services. In fiscal 2000, the Others Business was proactively engaged in consulting work and achieved systems stabilization through network and terminal operation and maintenance. As a result, in the year ended 31st March, 2000, net sales amounted to ¥92.9 billion.

New orders received in the period under review amounted to ¥619.5 billion in the SI Business and ¥95.4 billion in the Others Business, making total new orders received ¥714.9 billion. Order backlog amounted to ¥1,374.0 billion in the SI Business, and ¥27.8 billion in Others business, making total order backlog ¥1,401.8 billion.

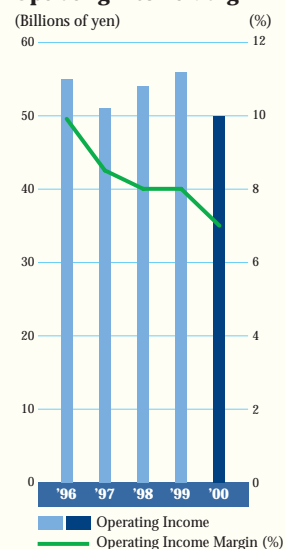
## Cost of Sales and Other Income (Expenses)

Cost of sales (cost of goods sold) in the period under review amounted to ¥539.7 billion, a rise of 3.4%, or ¥17.5 billion, compared with the previous period, which was higher than the 2.1% rise in net sales. The increase in cost of sales was attributable in part to an increase in costs

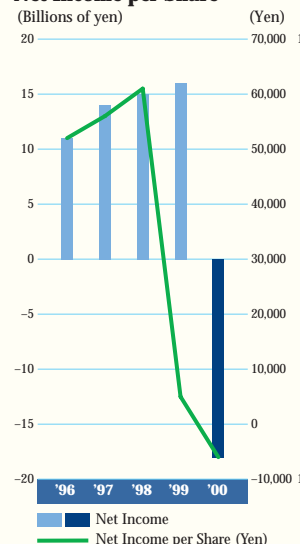
### Net Sales and Cost of Sales



### Operating Income and Operating Income Margin



### Net Income and Net Income per Share



Notes: A change in par value from ¥50,000 to ¥5,000 went into effect on 1st August, 1998. Net income per share for the fiscal year ended 31st March, 1999 reflects the stock split at the beginning of the period.

caused by the readjustment of some systems, in addition to an increase in costs in proportion to the increase in earnings. Looking at expenses by type, cost of sales was affected by rises in such fixed costs as depreciation and amortization, due to systems renewal, and transfers from a part of selling, general, and administrative expenses, or SG&A expenses, due to more appropriate cost accounting of welfare expenses related to Company housing. As a result, the cost of sales ratio rose 0.9 percentage point, from 73.5% to 74.4%. Regarding the increase in costs of certain projects, the Company is working hard to avoid its repetition by implementing policies designed to prevent a worsening of the cost of sales ratio, including thorough risk management at the systems development stage.

SG&A expenses rose ¥3.8 billion, or 2.9%, to ¥134.9 billion. Although there was a decline due to the aforementioned transfers of welfare expenses from SG&A expenses, the increase is attributable principally to expenses related to software expenses that were previously stated as assets, which are now stated in their entirety and when they are incurred, commencing with the period under review. This change is in line with new accounting standards related to research and development expenses.

Research and development expenses rose ¥8.6 billion, to ¥22.7 billion, due partially to the previously mentioned change in software accounting procedures. Due to this change, ¥23.5 billion, which was capitalized in previous years, is now stated as non-operating expenses. As a consequence, the ratio of SG&A expenses to sales increased slightly, from 18.5% to 18.6%. The ratio of R&D expenses to sales stood at 3.1%.

As a result of the events described above, the increase in earnings did not fully offset the increase in expenses, and operating income declined 10.7%, or ¥6.1 billion, to ¥50.7 billion. The ratio of operating income to net sales fell 1.0 percentage point, from 8.0% to 7.0%.

Non-operating expenses, net, increased markedly, to ¥79.9 billion, a rise of ¥60.8 billion. Interest expenses related to the issuance of new stock decreased, but, with the introduction of new accounting standards relating to research and development expenses, software, upon which production had begun in the previous accounting period or before, and machines and devices used in the course of research and development are required by the new standards to be stated in their entirety when they occur. Consequently, ¥23.5 billion of the prior year's research and development expenses were stated as losses in the period under review. In preparation for the introduction of new accounting standards regarding retirement benefits, effective from the beginning of the next fiscal year, a loss of ¥40.3 billion was stated as a transfer to the reserve for retirement allowances to cover a reserve shortfall in relation to retirement benefit obligations.

Income (loss) before income taxes amounted to a loss of ¥29.2 billion, compared with income of ¥37.7 billion in the previous period. Due to the introduction of deferred tax accounting from the beginning of the period under review, income taxes, current, for the period amounted to ¥19.3 billion. However, income taxes, deferred amounted to ¥30.3 billion and, hence, the net tax burden was negative ¥11.0 billion. As a result, net loss amounted to ¥18.1 billion, in contrast to net income of ¥16.3 billion in the previous period. These losses had no effect on cash flows in the period under review.

Net income (loss) per share decreased to a net loss of ¥6,458, from a net income of ¥5,905 in the previous fiscal year. Dividends paid by the parent company were as previously mentioned.

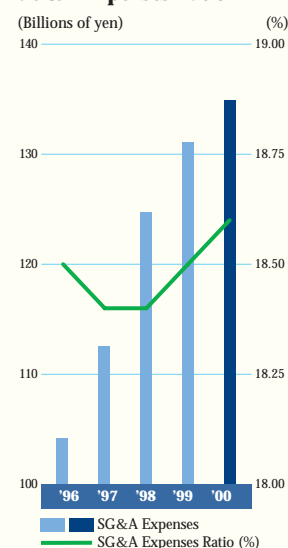
### Financial Position

In the period under review, the Company invested management resources in the fields most important to the Company, such as software—the axis of the Company's business. Accordingly, total assets held by the Company as of 31st March, 2000 rose ¥68.8 billion, to ¥1,071.7 billion.

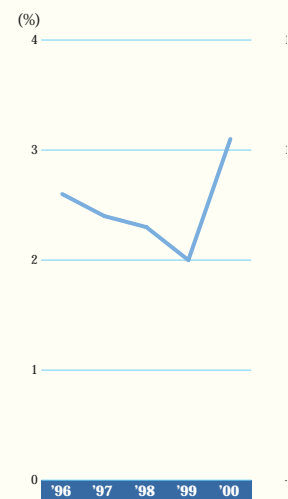
Total current assets fell ¥12.3 billion, to ¥266.6 billion. This was due principally to the write-off of certain assets as part of expenses. These assets were previously listed as inventories—primarily jobs and software in progress—due to the aforementioned application of new accounting standards relating to research and development expenses. The transfer resulted in a decline of ¥14.8 billion in inventories.

Regarding property and equipment and intangible assets, capital expenditures in the period under review amounted to ¥210.4 billion, centered on investment of ¥194.7 billion in NTT DATA's SI Business. Property and equipment, less accumulated depreciation declined ¥91.2 billion,

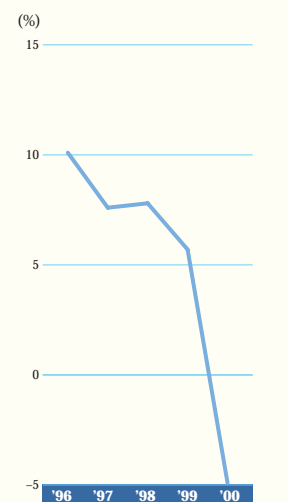
### SG&A Expenses and SG&A Expenses Ratio



### R&D Expenses Ratio



### Return on Equity (ROE)



to ¥426.2 billion, due principally to the expediting of depreciation and the transfer of production expenses for software in production for in-Company use to a temporary account for intangible fixed software assets, which, up to the previous fiscal period, were included in work in progress.

Deferred charges and intangibles increased ¥135.4 billion, to ¥296.5 billion, due principally to the expansion of software production and the aforementioned transfer from property and equipment of software for in-Company use. The increase in intangible fixed assets, due to the introduction of tax-effect accounting, effective from the period under review, which resulted in the creation of deferred tax assets of ¥33.6 billion, was the principal cause of the increase in total assets.

On the liabilities side, total liabilities increased ¥74.1 billion, to ¥706.7 billion. Of this total, short- and long-term interest-bearing debt, net increased ¥20.2 billion, to ¥451.9 billion, as a consequence of financing for software development and capital investment. Of this, there were new corporate bonds issued amounting to ¥60 billion and a redemption amounting to ¥10 billion, resulting in an increase of ¥50 billion. Short- and long-term debt, net fell ¥29.8 billion as a result of repayments and borrowings.

Operating liabilities and other liabilities increased ¥53.8 billion, to ¥254.9 billion. Principal factors leading to this increase were an increase of ¥13.2 billion in obligations to accounts payable, an increase of ¥4.7 billion in income taxes payable, and an increase of ¥41.0 billion in transfers to the reserve for retirement benefits in advance of the introduction of new accounting standards regarding retirement benefits, as previously described.

Shareholders' equity fell ¥5.5 billion, to ¥363.8 billion, as a result of a reduction in consolidated retained earnings, a net loss of ¥18.1 billion, and cash dividends to shareholders of ¥2.8 billion. Prior year's adjustments for the adoption of tax-effect accounting rose ¥15.6 billion. As a consequence, the shareholders' equity ratio slipped 2.9 percentage points, from 36.8% to 33.9%.

### Cash Flows

Cash and cash equivalents amounted to ¥90.4 billion at year-end, ¥6.7 billion lower than the previous fiscal year, due to a slight reduction in cash on hand and at banks.

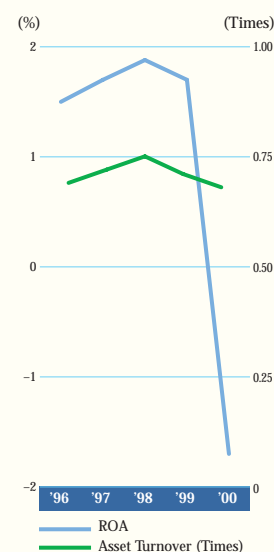
Net cash provided by operating activities amounted to ¥174.7 billion. Of this total, cash inflows, loss before income taxes, depreciation and amortization, and other non-cash items, after deduction of income taxes paid, amounted to ¥170.4 billion. Cash inflows in relation to operating assets and liabilities amounted to ¥4.3 billion, due to a reduction in accounts receivable and an increase in accounts payable.

Net cash flows from investing activities amounted to an outflow of ¥198.5 billion, due principally to the acquisition of property and equipment and intangible assets of ¥194.1 billion. NTT DATA is investing aggressively, principally in its SI Business, to enhance future earnings prospects.

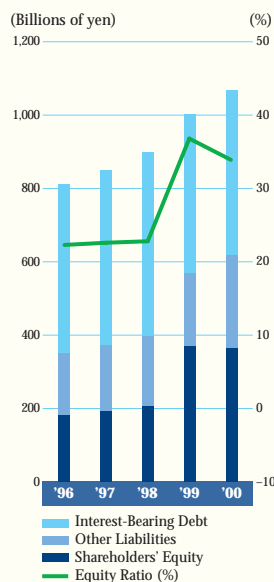
As a result of the Company's operating and investing activities, free cash flow amounted to an outflow of ¥23.8 billion.

Net cash provided by financing activities amounted to ¥17.1 billion, as a result of borrowing, repayment, and redemption activities.

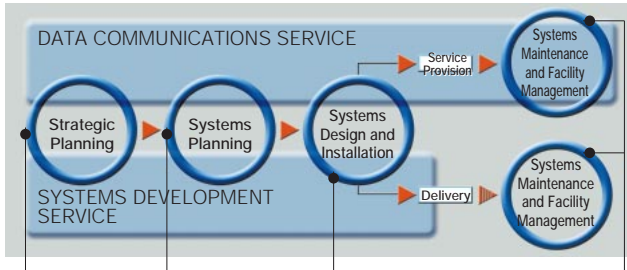
### ROA and Asset Turnover



### Composition of Total Capital Employed



○ Structure of NTT DATA's SI Business



The Company works closely with clients to identify and evaluate their information technology requirements and to develop a strategic plan that meets each client's needs and considers the future development of the client's operations.

At the strategic planning stage, the Company designs the optimal system to meet the client's needs in a comprehensive plan for the entire data communications system development process.

This stage involves design and installation, from planning to the client's final approval—including software development, hardware selection and procurement, and system testing.

The Company provides complete support for all matters related to its clients' data communications system facilities, including the maintenance and management of computer centers, terminals, and networks.

NTT DATA offers two varieties of service in its SI business, Data Communications Service and Systems Development Service.

The Data Communications Service is a development and service provision format unique to NTT DATA. In the Data Communications Service, NTT DATA retains ownership of the assets involved while developing systems and providing management and maintenance services for a client who pays a fee for their use. In this way, the client can avoid the burdens of a substantial commitment of funds. For NTT DATA, there is a fairly large capital investment necessary in the initial stages, but once the order has been received it represents a stable revenue source for the length of the time that the client uses the services.

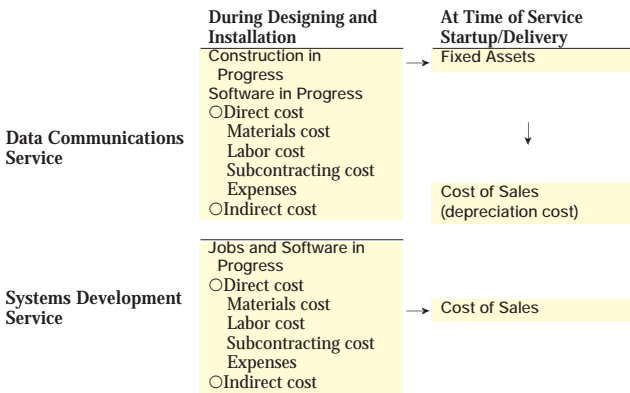
◆ The Major Differences between Data Communications Service and Systems Development Service

|                     | Data Communications Service | Systems Development Service |
|---------------------|-----------------------------|-----------------------------|
| Type of Contract    | Stipulated Contract         | Individual Contract         |
| Ownership of Assets | The Company                 | Client                      |
| Payment Method      | Monthly Fees                | Lump-Sum Payment            |

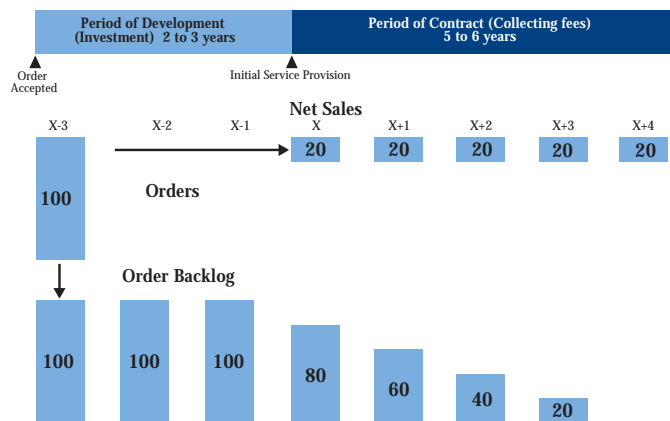
◆ Selection of Data Communications Service or Systems Development Service (party responsible for decision)

The decision whether to choose Data Communications Service or Systems Development Service is up to the client.

◆ Cost Flow for Data Communications Service and Systems Development Service



◆ Net Sales, Orders, and Order Backlog in Data Communications Service



◆ Depreciation/Amortization of Fixed Assets

|                                  | Hardware                                                                              | Software                                                                 |
|----------------------------------|---------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Depreciation/Amortization Method | Declining-balance basis                                                               | Straight-line basis                                                      |
| Depreciation/Amortization Period | The same standards for the methods stipulated by Japanese corporate tax law (6 years) | Fee payment period (standard: 5 to 6 years) based on contact with client |

# Consolidated Balance Sheets

NTT DATA CORPORATION AND SUBSIDIARIES  
Years ended 31st March, 1999 and 2000

| ASSETS                                                    | Millions of yen |            | Thousands of<br>U.S. dollars<br>(Note 3) |
|-----------------------------------------------------------|-----------------|------------|------------------------------------------|
|                                                           | 1999            | 2000       | 2000                                     |
| <b>Current Assets:</b>                                    |                 |            |                                          |
| Cash on hand and at banks                                 | ¥ 97,412        | ¥ 90,776   | \$ 856,377                               |
| Accounts receivable:                                      |                 |            |                                          |
| Outside clients, including NTT                            | 107,468         | 104,244    | 983,434                                  |
| Unconsolidated subsidiaries and affiliates                | 2,419           | 1,869      | 17,632                                   |
|                                                           | 109,887         | 106,113    | 1,001,066                                |
| Less: allowance for bad debts                             | (533)           | (411)      | (3,877)                                  |
|                                                           | 109,354         | 105,702    | 997,189                                  |
| Inventory, primarily jobs and software in progress        | 58,374          | 43,546     | 410,811                                  |
| Deferred tax assets—current (Note 8)                      | —               | 12,614     | 119,000                                  |
| Other current assets                                      | 13,721          | 13,932     | 131,434                                  |
| Total current assets                                      | 278,861         | 266,570    | 2,514,811                                |
| <b>Investments and Advances:</b>                          |                 |            |                                          |
| Investments in securities (Note 9)                        | 6,447           | 6,081      | 57,368                                   |
| Investments in unconsolidated subsidiaries and affiliates | 5,368           | 7,456      | 70,340                                   |
| Other investments and advances                            | 33,683          | 35,290     | 332,924                                  |
| Total investments and advances                            | 45,498          | 48,827     | 460,632                                  |
| <b>Property and Equipment, at Cost</b>                    | 1,069,069       | 991,547    | 9,354,217                                |
| Less: accumulated depreciation                            | (551,688)       | (565,383)  | (5,333,802)                              |
|                                                           | 517,381         | 426,164    | 4,020,415                                |
| <b>Deferred Tax Assets—Non-Current</b> (Note 8)           | —               | 33,622     | 317,189                                  |
| <b>Deferred Charges and Intangibles:</b>                  |                 |            |                                          |
| Software                                                  | 158,036         | 177,654    | 1,675,981                                |
| Development costs of software in progress (Note 1 (2))    | —               | 115,380    | 1,088,491                                |
| Other                                                     | 3,029           | 3,436      | 32,415                                   |
|                                                           | 161,065         | 296,470    | 2,796,887                                |
|                                                           | ¥1,002,805      | ¥1,071,653 | \$10,109,934                             |

The accompanying notes are an integral part of the statements.



| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                              | Millions of yen |            | Thousands of<br>U.S. dollars<br>(Note 3) |
|--------------------------------------------------------------------------|-----------------|------------|------------------------------------------|
|                                                                          | 1999            | 2000       | 2000                                     |
| <b>Current Liabilities:</b>                                              |                 |            |                                          |
| Short-term bank loans (Note 4)                                           | ¥ 1,200         | ¥ 5,840    | \$ 55,094                                |
| Current portion of long-term debt (Note 4)                               | 57,893          | 63,790     | 601,792                                  |
| Accounts payable:                                                        |                 |            |                                          |
| Suppliers, including NTT                                                 | 60,704          | 76,654     | 723,151                                  |
| Unconsolidated subsidiaries and affiliates                               | 6,529           | 8,134      | 76,736                                   |
| Other                                                                    | 30,862          | 26,477     | 249,783                                  |
|                                                                          | 98,095          | 111,265    | 1,049,670                                |
| Income taxes payable (Note 2 (8))                                        | 12,725          | 17,413     | 164,274                                  |
| Other current liabilities                                                | 22,692          | 23,833     | 224,840                                  |
| Total current liabilities                                                | 192,605         | 222,141    | 2,095,670                                |
| <b>Long-Term Debt</b> (Note 4)                                           | 372,519         | 382,229    | 3,605,934                                |
| <b>Reserve for Retirement Benefits</b> (Notes 2 (10) and (11))           | 58,944          | 99,905     | 942,500                                  |
| <b>Other Liabilities</b>                                                 | 8,594           | 2,464      | 23,245                                   |
| Total liabilities                                                        | 632,662         | 706,739    | 6,667,349                                |
| <b>Minority Interests in Consolidated Subsidiaries</b>                   | 899             | 1,156      | 10,906                                   |
| <b>Commitments and Contingent Liabilities</b> (Note 5)                   |                 |            |                                          |
| <b>Shareholders' Equity:</b>                                             |                 |            |                                          |
| Common stock, par value—¥5,000 per share at 31st March,<br>1999 and 2000 |                 |            |                                          |
| Authorized—11,220,000 shares at 31st March, 1999 and 2000                |                 |            |                                          |
| Issued—2,805,000 shares at 31st March, 1999 and 2000                     | 142,520         | 142,520    | 1,344,528                                |
| Additional paid-in capital                                               | 139,300         | 139,300    | 1,314,151                                |
| Retained earnings                                                        | 87,424          | 81,938     | 773,000                                  |
| Total shareholders' equity                                               | 369,244         | 363,758    | 3,431,679                                |
|                                                                          | ¥1,002,805      | ¥1,071,653 | \$10,109,934                             |

# Consolidated Statements of Operations

NTT DATA CORPORATION AND SUBSIDIARIES  
For the years ended 31st March, 1998, 1999 and 2000

|                                                                            | Millions of yen |          |                  | Thousands of<br>U.S. dollars<br>(Note 3) |
|----------------------------------------------------------------------------|-----------------|----------|------------------|------------------------------------------|
|                                                                            | 1998            | 1999     | 2000             | 2000                                     |
| <b>Net Sales</b> (Note 11)                                                 | ¥676,581        | ¥710,152 | <b>¥725,348</b>  | <b>\$6,842,906</b>                       |
| <b>Cost of Sales</b> (Note 1 (3))                                          | 497,713         | 522,190  | <b>539,715</b>   | <b>5,091,651</b>                         |
| Gross profit                                                               | 178,868         | 187,962  | <b>185,633</b>   | <b>1,751,255</b>                         |
| <b>Selling, General and Administrative Expenses</b><br>(Notes 1 (3) and 6) | 124,671         | 131,129  | <b>134,895</b>   | <b>1,272,595</b>                         |
| Operating income                                                           | 54,197          | 56,833   | <b>50,738</b>    | <b>478,660</b>                           |
| <b>Non-Operating Income (Expenses):</b>                                    |                 |          |                  |                                          |
| Interest and dividend income                                               | 287             | 650      | <b>130</b>       | <b>1,226</b>                             |
| Interest expenses                                                          | (15,449)        | (11,747) | <b>(10,143)</b>  | <b>(95,689)</b>                          |
| Lease rental income from buildings                                         | 870             | 751      | <b>1,015</b>     | <b>9,575</b>                             |
| Cost of lease rental buildings                                             | (564)           | —        | —                | —                                        |
| Amortization of past service cost of the pension plan                      | (1,843)         | —        | —                | —                                        |
| New share issue expenses                                                   | —               | (5,148)  | —                | —                                        |
| Prior year's research and development expenses                             | —               | —        | <b>(23,540)</b>  | <b>(222,075)</b>                         |
| Provision for retirement benefits                                          | —               | —        | <b>(40,333)</b>  | <b>(380,500)</b>                         |
| Others, net                                                                | (3,223)         | (3,592)  | <b>(7,044)</b>   | <b>(66,452)</b>                          |
|                                                                            | (19,922)        | (19,086) | <b>(79,915)</b>  | <b>(753,915)</b>                         |
| Income (loss) before income taxes                                          | 34,275          | 37,747   | <b>(29,177)</b>  | <b>(275,255)</b>                         |
| <b>Income Taxes</b> (Note 2 (8)):                                          |                 |          |                  |                                          |
| Current                                                                    | 18,627          | 21,450   | <b>19,271</b>    | <b>181,802</b>                           |
| Deferred                                                                   | —               | —        | <b>(30,279)</b>  | <b>(285,651)</b>                         |
|                                                                            | 18,627          | 21,450   | <b>(11,008)</b>  | <b>(103,849)</b>                         |
| Income (loss) before minority interests                                    | 15,648          | 16,297   | <b>(18,169)</b>  | <b>(171,406)</b>                         |
| <b>Minority Interests in Consolidated Subsidiaries</b>                     | (36)            | 16       | <b>55</b>        | <b>519</b>                               |
| Net income (loss)                                                          | ¥ 15,612        | ¥ 16,313 | <b>¥(18,114)</b> | <b>\$ (170,887)</b>                      |
|                                                                            |                 |          |                  |                                          |
|                                                                            |                 | Yen      |                  | U.S. dollars                             |
| <b>Per Share:</b>                                                          |                 |          |                  |                                          |
| Net income (loss)                                                          | ¥ 61,708        | ¥ 5,905  | <b>¥ (6,458)</b> | <b>\$ (60.92)</b>                        |
| Cash dividends                                                             | 10,000          | 1,000    | <b>1,000</b>     | <b>9.43</b>                              |

The accompanying notes are an integral part of the statements.

## Consolidated Statements of Shareholders' Equity

NTT DATA CORPORATION AND SUBSIDIARIES  
For the years ended 31st March, 1998, 1999 and 2000

|                                                                     | Number of<br>shares<br>issued | Millions of yen |                                  |                      |
|---------------------------------------------------------------------|-------------------------------|-----------------|----------------------------------|----------------------|
|                                                                     |                               | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings |
| <b>Balance at 31st March, 1997</b>                                  | 253,000                       | ¥ 67,335        | ¥ 64,115                         | ¥ 61,366             |
| Net income for the year ended 31st March, 1998                      | —                             | —               | —                                | 15,612               |
| Cash dividends                                                      | —                             | —               | —                                | (2,530)              |
| Bonuses to directors and statutory auditors                         | —                             | —               | —                                | (99)                 |
| <b>Balance at 31st March, 1998</b>                                  | 253,000                       | 67,335          | 64,115                           | 74,349               |
| Net income for the year ended 31st March, 1999                      | —                             | —               | —                                | 16,313               |
| Cash dividends                                                      | —                             | —               | —                                | (3,110)              |
| Bonuses to directors and statutory auditors                         | —                             | —               | —                                | (128)                |
| New shares issued on 12th May, 1998                                 | 27,500                        | 75,185          | 75,185                           | —                    |
| Stock split at a rate of 1 to 10                                    | 2,524,500                     | —               | —                                | —                    |
| <b>Balance at 31st March, 1999</b>                                  | 2,805,000                     | 142,520         | 139,300                          | 87,424               |
| Net loss for the year ended 31st March, 2000                        | —                             | —               | —                                | <b>(18,114)</b>      |
| Cash dividends                                                      | —                             | —               | —                                | <b>(2,805)</b>       |
| Bonuses to directors and statutory auditors                         | —                             | —               | —                                | <b>(125)</b>         |
| Prior year's adjustments for adoption<br>of deferred tax accounting | —                             | —               | —                                | <b>15,558</b>        |
| <b>Balance at 31st March, 2000</b>                                  | <b>2,805,000</b>              | <b>¥142,520</b> | <b>¥139,300</b>                  | <b>¥ 81,938</b>      |

|                                                                     | Number of<br>shares<br>issued | Thousands of U.S. dollars (Note 3) |                                  |                      |
|---------------------------------------------------------------------|-------------------------------|------------------------------------|----------------------------------|----------------------|
|                                                                     |                               | Common<br>stock                    | Additional<br>paid-in<br>capital | Retained<br>earnings |
| <b>Balance at 31st March, 1999</b>                                  | 2,805,000                     | \$1,344,528                        | \$1,314,151                      | \$ 824,755           |
| Net loss for the year ended 31st March, 2000                        | —                             | —                                  | —                                | <b>(170,887)</b>     |
| Cash dividends                                                      | —                             | —                                  | —                                | <b>(26,462)</b>      |
| Bonuses to directors and statutory auditors                         | —                             | —                                  | —                                | <b>(1,179)</b>       |
| Prior year's adjustments for adoption<br>of deferred tax accounting | —                             | —                                  | —                                | <b>146,773</b>       |
| <b>Balance at 31st March, 2000</b>                                  | <b>2,805,000</b>              | <b>\$1,344,528</b>                 | <b>\$1,314,151</b>               | <b>\$773,000</b>     |

The accompanying notes are an integral part of the statements.

# Consolidated Statement of Cash Flows

NTT DATA CORPORATION AND SUBSIDIARIES

For the year ended 31st March, 2000

|                                                                                            | Millions of yen | Thousands of<br>U.S. dollars<br>(Note 3) |
|--------------------------------------------------------------------------------------------|-----------------|------------------------------------------|
|                                                                                            | <b>2000</b>     | <b>2000</b>                              |
| <b>Cash Flows from Operating Activities:</b>                                               |                 |                                          |
| Loss before income taxes                                                                   | ¥(29,177)       | \$ (275,255)                             |
| Prior year's research and development expenses                                             | 23,540          | 222,075                                  |
| Provision for retirement benefits                                                          | 40,333          | 380,500                                  |
| Depreciation                                                                               | 92,019          | 868,104                                  |
| Amortization                                                                               | 40,954          | 386,358                                  |
| Loss on disposal of property and equipment                                                 | 14,043          | 132,481                                  |
| Loss on disposal of intangible assets                                                      | 5,509           | 51,972                                   |
| Provision of reserve for retirement benefits<br>and increase in long-term accrued expenses | (5,465)         | (51,557)                                 |
| Unrealised loss on valuation of investments in securities                                  | 1,585           | 14,953                                   |
| Decrease in accounts receivable                                                            | 3,774           | 35,604                                   |
| Increase in inventories                                                                    | (3,212)         | (30,302)                                 |
| Increase in accounts payable                                                               | 3,803           | 35,877                                   |
| Interest expenses                                                                          | 10,143          | 95,689                                   |
| Others, net                                                                                | 1,661           | 15,671                                   |
| Sub total                                                                                  | 199,510         | 1,882,170                                |
| Interest and dividends received                                                            | 130             | 1,226                                    |
| Interest paid                                                                              | (10,243)        | (96,632)                                 |
| Income taxes paid                                                                          | (14,670)        | (138,396)                                |
| Net cash provided by operating activities                                                  | 174,727         | 1,648,368                                |
| <b>Cash Flows from Investing Activities:</b>                                               |                 |                                          |
| Acquisition of property and equipment                                                      | (104,671)       | (987,462)                                |
| Acquisition of intangible assets                                                           | (89,453)        | (843,896)                                |
| Proceeds from sales of property and equipment                                              | 1,591           | 15,009                                   |
| Acquisition of investments in securities and affiliates                                    | (3,571)         | (33,689)                                 |
| Others, net                                                                                | (2,386)         | (22,509)                                 |
| Net cash used in investing activities                                                      | (198,490)       | (1,872,547)                              |
| <b>Cash Flows from Financing Activities:</b>                                               |                 |                                          |
| Proceeds from issue of bonds                                                               | 59,697          | 563,179                                  |
| Redemption of bonds at maturity                                                            | (10,000)        | (94,340)                                 |
| Borrowings of long-term debt                                                               | 13,500          | 127,358                                  |
| Repayments of long-term borrowings                                                         | (47,892)        | (451,811)                                |
| Net increase in short-term bank loans                                                      | 4,640           | 43,774                                   |
| Cash dividends                                                                             | (2,809)         | (26,500)                                 |
| Cash dividends to minority shareholders                                                    | (5)             | (47)                                     |
| Net cash provided by financing activities                                                  | 17,131          | 161,613                                  |
| <b>Effects of Change of Exchange Rate on Cash and Cash Equivalents</b>                     | <b>(82)</b>     | <b>(773)</b>                             |
| <b>Net Decrease in Cash and Cash Equivalents</b>                                           | <b>(6,714)</b>  | <b>(63,339)</b>                          |
| <b>Cash and Cash Equivalents at Beginning of Year</b>                                      | <b>97,115</b>   | <b>916,179</b>                           |
| <b>Cash and Cash Equivalents at End of Year</b>                                            | <b>¥ 90,401</b> | <b>\$ 852,840</b>                        |
| (Reference)                                                                                |                 |                                          |
| Free Cash Flow                                                                             | ¥ (23,763)      | \$ (224,179)                             |

The accompanying notes are an integral part of the statements.

# Notes to the Consolidated Financial Statements

NTT DATA CORPORATION AND SUBSIDIARIES

## 1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

### (1) Accounting Principles

The accompanying consolidated financial statements of NTT DATA CORPORATION (the "Company") and subsidiaries have been prepared in conformity with accounting principles and practices generally accepted in Japan. The accounts of the Company and its consolidated subsidiaries (all domestic companies) are maintained in accordance with the provisions set forth in the Japanese Commercial Code, the Japanese Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements of the Company and its subsidiaries are essentially the translation of those included in the Securities Annual Report filed with the Japanese Minister of Finance and the Stock Exchanges as required by the provisions of the Japanese Securities and Exchange Law and related regulations in Japan.

Accordingly, the information disclosed in the accompanying consolidated financial statements is derived from the original text and the scope and nature of the information is limited to those disclosed therein. However, certain reclassification or summarization of accounts has been made to present the consolidated financial statements in a form which is more familiar to foreign readers.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles

and practices generally accepted in countries and jurisdictions other than Japan.

The consolidated statement of cash flows has been required to be prepared with effect for the year ended 31st March, 2000, in accordance with a new accounting standard.

### (2) Change in Presentation of Accounts

Due to the amendments of the Consolidated Financial Statements Regulation of Japan, the following presentations of the accounts in the consolidated financial statements have been changed for the fiscal year ended 31st March, 2000.

Previously, costs of software for internal use under development were included in "Property and Equipment, at Cost." From the fiscal year ended 31st March, 2000, the cost is separately disclosed as "Development costs of software in progress" on the consolidated balance sheets.

### (3) Change of Accounting Policy

Allocation of expenses related to Company housing:

Previously, social and welfare expenses related to company houses were included in "Selling, General and Administrative Expenses." From this fiscal year, such expenses are allocated to "Selling, General and Administrative Expenses," "Cost of Goods" and "Cost of Sales." This accounting change decreased "Selling, General and Administrative Expenses" ¥2,737 million (\$25,821 thousand), while it increased "Cost of Goods" and "Cost of Sales" the same amount. This change is not material to "Operating income" and "Loss before income taxes."

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Scope of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and nine of its subsidiaries (together, referred to as the "Companies"), which are listed below:

NTT System Technologies Inc.  
NTT System Service Corporation  
FUKUSHIMA NTT DATA COMMUNICATIONS  
SYSTEMS CORPORATION  
TOKYO NTT DATA COMMUNICATIONS SYSTEMS  
CORPORATION  
NAGANO NTT DATA COMMUNICATIONS SYSTEMS  
CORPORATION  
TOKAI NTT DATA COMMUNICATIONS SYSTEMS  
CORPORATION  
KANSAI NTT DATA COMMUNICATIONS SYSTEMS  
CORPORATION  
CHUGOKU NTT DATA COMMUNICATIONS SYSTEMS  
CORPORATION  
KYUSHU NTT DATA COMMUNICATIONS SYSTEMS  
CORPORATION

The accounts of the unconsolidated subsidiaries (ex. NTT DATA HOKKAIDO TECSYS CORPORATION, etc.) had total assets, net sales, net income (loss) and retained earnings, which in the aggregate are not significant in relation to the consolidated totals, and therefore have been excluded from consolidation with the Company.

All of the above consolidated subsidiaries use the fiscal year ending on 31st March of each year, which is in agreement with that of the Company.

### (2) Equity Method of Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The equity method is applied to the investments in an affiliate, Japan Network System Corporation, because the investments in the unconsolidated subsidiaries and remaining affiliates would not have a material effect on consolidated net income and retained earnings had they been accounted for by the equity method.

The investments in such unconsolidated subsidiaries and affiliates are carried at cost or less.

### **(3) Elimination and Combination**

For the purposes of preparing the consolidated financial statements of the Companies, all significant intercompany transactions, account balances and unrealised profits among the Companies have been entirely eliminated and the portion applicable to minority interests is charged or credited to "Minority Interests in Consolidated Subsidiaries."

In elimination, any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary is treated as an asset or a liability, as the case may be, and amortized over a period of five years on a straight-line basis.

### **(4) Inventories**

"Inventories, primarily jobs and software in progress," is stated at cost, which is determined on an individual project basis.

Supplies are valued at cost, which is principally determined by the first-in, first-out method.

### **(5) Valuation of Securities**

Securities having market quotations on stock exchanges are principally valued at the lower of cost or market value, cost being determined by the moving-average method. Other securities are valued at cost which is determined by the moving-average method.

### **(6) Property and Equipment**

Depreciation is computed by the declining-balance method, at rates based on the estimated useful lives of assets that are prescribed by the Japanese income tax laws. However, depreciation of buildings (except for building improvements) acquired after 1st April, 1998 is computed by the straight-line method.

### **(7) Deferred Charges and Intangibles**

#### **1) Intangible Assets**

Amortization of intangible assets, except for software, is computed by the straight-line method over the period prescribed by the Japanese income tax laws.

Amortization of software is based on the following:

#### **a) Software developed for sale**

The amortization costs of software developed for external sale are computed as the higher of: (a) the amount based on sales in the year, as a proportion of total estimated sales over not more than a three-year sales period, or (b) the amount computed on a straight-line basis over the remaining sales period in which the software can be sold by the Company.

#### **b) Software developed for internal use**

Software for internal use is amortized on a straight-line basis over the estimated useful lives, not exceeding five years.

However, software which is exclusively developed for the purpose of tailor-made Data Communications Services to clients under specific contracts is amortized on a straight-line basis over the relevant contract period.

### **2) Deferred Charges**

Bond issue expenses, bond discounts at issue and new share issue expenses are charged to expenses as incurred.

### **(8) Income Taxes**

Income taxes of the Companies consist of corporate income taxes, local inhabitants taxes and enterprise taxes.

In the year ended 31st March, 2000, the Companies adopted the deferred tax accounting method in accordance with the amended regulations for the preparation of consolidated financial statements. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. The cumulative effect of adopting deferred tax accounting at 1st April, 1999 was charged to retained earnings.

In the years ended 31st March, 1998 and 1999, income taxes of the Companies were provided for at an amount currently payable based on the tax returns filed with tax authorities.

### **(9) Allowance for Bad Debts**

The allowance for bad debts account is provided for in an amount equivalent to the maximum allowable deduction for tax purposes that is determined as a prescribed percentage of total receivables (net of any payables to whom the Company has receivables), plus the amount to cover all individual accounts that are estimated to be uncollectible.

### **(10) Reserve for Retirement Benefits**

The "Reserve for retirement benefits" is provided in an amount equivalent to the undiscounted liability the Company would have been required to pay if all eligible employees had voluntarily retired at the balance sheet date. Previously, a reserve for retirement benefits was provided in an amount equivalent to the discounted present value of the liability the Company would have been required to pay under the same circumstances. For the previous fiscal year, consolidated subsidiaries provided for a reserve for retirement benefits in an amount equivalent to 40% of the liability under the same circumstances. In this fiscal year, principally all consolidated subsidiaries provided for 100% of such liability. This accounting change increased "Provision for retirement benefits," shown under "Non-Operating Income (Expenses)," ¥40,333 million (\$380,500 thousand), which resulted in an increase in "Loss before income taxes" of the same amount.

### **(11) Reserve for Retirement Benefits to Directors and Statutory Auditors**

Reserves for retirement benefits payable to directors and statutory auditors are provided by the Company and certain consolidated subsidiaries in an amount equivalent to the liability the

relevant company would have been required to pay upon retirement at the balance sheet date, as prescribed by its internal rules.

At 31st March, 1999 and 2000, the consolidated reserves for retirement benefits included amounts of ¥966 million (\$9,113 thousand) and ¥769 million (\$7,255 thousand), respectively.

### 3. UNITED STATES DOLLAR AMOUNTS

The Companies maintain their accounting records in yen. The dollar amounts included in the financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥106=U.S.\$1. The inclusion of such dollar

### (12) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with original maturities of three months or less and which represent a minor risk of fluctuations in value.

amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realised or settled in dollars at ¥106=U.S.\$1 or at any other rate.

### 4. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at 31st March, 1999 and 2000 consisted of the following:

|                       | Millions of yen |         | Thousands of U.S. dollars |
|-----------------------|-----------------|---------|---------------------------|
|                       | 1999            | 2000    | 2000                      |
| Short-term bank loans | ¥ 1,200         | ¥ 5,840 | \$ 55,094                 |
|                       | ¥ 1,200         | ¥ 5,840 | \$ 55,094                 |

Short-term bank loans bore interest at an annual rate of 0.62% at 31st March, 1999 and at annual rates ranging from 0.355% to 1.875% at 31st March, 2000.

Long-term debt at 31st March, 1999 and 2000 consisted of the following:

|                                                                  | Millions of yen |          | Thousands of U.S. dollars |
|------------------------------------------------------------------|-----------------|----------|---------------------------|
|                                                                  | 1999            | 2000     | 2000                      |
| Long-term borrowings from banks and other financial institutions | ¥185,412        | ¥151,019 | \$1,424,707               |
| 4.35% yen bonds due 22nd December, 2000                          | 20,000          | 20,000   | 188,679                   |
| 2.40% yen bonds due 20th September, 2000                         | 20,000          | 20,000   | 188,679                   |
| 2.95% yen bonds due 10th November, 2006                          | 30,000          | 30,000   | 283,019                   |
| 1.975% yen bonds due 20th March, 2003                            | 20,000          | 20,000   | 188,679                   |
| 2.075% yen bonds due 25th June, 2002                             | 30,000          | 30,000   | 283,019                   |
| 2.50% yen bonds due 22nd December, 2009                          | 30,000          | 30,000   | 283,019                   |
| 3.10% yen bonds due 26th February, 2008*                         | 2,000           | 2,000    | 18,868                    |
| 3.30% yen bonds due 26th February, 2010*                         | 3,000           | 3,000    | 28,302                    |
| 1.95% yen bonds due 27th February, 2003                          | 20,000          | 20,000   | 188,679                   |
| 1.86% yen bonds due 2nd October, 2008                            | 30,000          | 30,000   | 283,019                   |
| 1.72% yen bonds due 22nd December, 2008                          | 30,000          | 30,000   | 283,019                   |
| 2.10% yen bonds due 22nd September, 2009                         | —               | 30,000   | 283,019                   |
| 1.09% yen bonds due 17th November, 2004                          | —               | 30,000   | 283,019                   |
| 4.10% yen bonds due 9th November, 1999                           | 10,000          | —        | —                         |
|                                                                  | 430,412         | 446,019  | 4,207,726                 |
| Less: portion due within one year                                | (57,893)        | (63,790) | (601,792)                 |
|                                                                  | ¥372,519        | ¥382,229 | \$3,605,934               |

\* Interest is to be paid in U.S. dollars. Fixed annual interest payments in U.S. dollars are \$24,899.59 per ¥100 million for 3.10% yen bonds due 2008 and \$26,634.38 per ¥100 million for 3.30% yen bonds due 2010.

Note:

(1) All bonds were issued by NTT DATA CORPORATION.

Long-term borrowings from banks and other financial institutions were bearing interest at annual rates ranging from 0.549% to 5.6% at 31st March, 1999 and at annual rates ranging from 1.09% to 5.6% at 31st March, 2000.

A breakdown of long-term borrowings from banks and other financial institutions outstanding at 31st March, 2000, classified by annual maturities during the next three years, is as follows:

Due in the year ended 31st March,

|                     | Millions of yen | Thousands of U.S. dollars |
|---------------------|-----------------|---------------------------|
| 2001                | ¥ 23,790        | \$ 224,434                |
| 2002                | 72,361          | 682,651                   |
| 2003                | 23,636          | 222,981                   |
| 2004 and thereafter | 31,232          | 294,642                   |
|                     | ¥151,019        | \$1,424,708               |

None of the Companies' assets were pledged as collateral for short-term and long-term borrowings from banks and bonds as at 31st March, 2000.

## 5. COMMITMENTS AND CONTINGENT LIABILITIES

As at 31st March, 2000, the Company was contingently liable for guarantees of loans borrowed by Nippon Leisure Card System Co., Ltd. in an amount of ¥8,868 million (\$83,660 thousand).

All finance lease contracts other than those by which the ownership of the leased assets is to be transferred to lessees are accounted for by a method similar to the operating lease method.

Lease rental expenses on finance lease contracts without ownership transfer for the years ended 31st March, 1999 and 2000 were as follows:

|                       | Millions of yen |                | Thousands of U.S. dollars |
|-----------------------|-----------------|----------------|---------------------------|
|                       | 1999            | 2000           | 2000                      |
| Lease rental expenses | ¥ 7,731         | ¥ <b>7,596</b> | \$ <b>71,660</b>          |

The amount of outstanding future lease payments due at 31st March, 1999 and 2000, which included the portion of interest thereon, was as follows:

|                        | Millions of yen |                 | Thousands of U.S. dollars |
|------------------------|-----------------|-----------------|---------------------------|
|                        | 1999            | 2000            | 2000                      |
| Future lease payments: |                 |                 |                           |
| Within one year        | ¥ 7,216         | ¥ <b>4,923</b>  | \$ <b>46,443</b>          |
| Over one year          | 11,526          | <b>9,053</b>    | <b>85,406</b>             |
|                        | ¥18,742         | ¥ <b>13,976</b> | \$ <b>131,849</b>         |



Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets (data communications equipment and other), which included the portion of interest thereon, were as follows:

|                          | Millions of yen |                 | Thousands of<br>U.S. dollars |
|--------------------------|-----------------|-----------------|------------------------------|
|                          | 1999            | 2000            | 2000                         |
| Acquisition cost         | ¥ 45,086        | ¥ <b>43,521</b> | \$ <b>410,575</b>            |
| Accumulated depreciation | (26,344)        | <b>(29,545)</b> | <b>(278,726)</b>             |
| Net book value           | ¥ 18,742        | ¥ <b>13,976</b> | \$ <b>131,849</b>            |
| Depreciation*            | ¥ 7,731         | ¥ <b>7,596</b>  | \$ <b>71,660</b>             |

\* Depreciation is based on the straight-line method over the lease term of the leased assets, assuming no residual value.

### Operating lease contracts

The amount of outstanding future lease payments due at 31st March, 1999 and 2000, which included the portion of interest thereon, was as follows:

|                        | Millions of yen |      | Thousands of<br>U.S. dollars |
|------------------------|-----------------|------|------------------------------|
|                        | 1999            | 2000 | 2000                         |
| Future lease payments: |                 |      |                              |
| Within one year        | ¥ 17            | ¥ —  | \$ —                         |
| Over one year          | 26              | —    | —                            |
|                        | ¥ 43            | ¥ —  | \$ —                         |

## 6. BREAKDOWN OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Companies' selling, general and administrative expenses for the years ended 31st March, 1998, 1999 and 2000 were as follows:

|                                                          | Millions of yen |          |                  | Thousands of<br>U.S. dollars |
|----------------------------------------------------------|-----------------|----------|------------------|------------------------------|
|                                                          | 1998            | 1999     | 2000             | 2000                         |
| Employees' salaries, wages and other payroll costs       | ¥ 30,743        | ¥ 32,464 | ¥ <b>34,336</b>  | \$ <b>323,925</b>            |
| Provision for reserve for employees' retirement benefits | 1,619           | 1,829    | <b>2,083</b>     | <b>19,651</b>                |
| Subcontractor expenses                                   | 24,172          | 28,570   | <b>31,107</b>    | <b>293,462</b>               |
| Research and development expenses                        | 15,874          | 14,042   | <b>22,684</b>    | <b>214,000</b>               |
| Others                                                   | 52,263          | 54,224   | <b>44,685</b>    | <b>421,557</b>               |
|                                                          | ¥124,671        | ¥131,129 | ¥ <b>134,895</b> | \$ <b>1,272,595</b>          |

## 7. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation between “Cash on hand and at bank” and “Cash and cash equivalents” is as follows:

|                                                     | Millions of yen<br>2000 | Thousands of<br>U.S. dollars<br>2000 |
|-----------------------------------------------------|-------------------------|--------------------------------------|
| Cash on hand and at bank                            | ¥90,776                 | \$856,377                            |
| Term deposits falling due in more than three months | (375)                   | (3,537)                              |
| Cash and cash equivalents                           | ¥90,401                 | \$852,840                            |

## 8. DEFERRED TAX ASSETS

The statutory tax rates used for calculating deferred tax assets and deferred tax liabilities as at 31st March, 2000 was 42.05%.

(1) At 31st March, 2000, significant components of deferred tax assets and liabilities were as follows:

|                                                  | Millions of yen<br>2000 | Thousands of<br>U.S. dollars<br>2000 |
|--------------------------------------------------|-------------------------|--------------------------------------|
| Deferred tax assets:                             |                         |                                      |
| Non-deductible provision for retirement benefits | ¥27,919                 | \$263,387                            |
| Loss on write-down of inventories                | 9,245                   | 87,217                               |
| Non-deductible depreciation                      | 10,803                  | 101,915                              |
| Other                                            | 6,935                   | 65,424                               |
| Total                                            | 54,902                  | 517,943                              |
| Valuation allowance                              | (50)                    | (471)                                |
| Total deferred tax assets                        | 54,852                  | 517,472                              |
| Deferred tax liabilities:                        |                         |                                      |
| Special tax purpose reserve                      | (7,774)                 | (73,340)                             |
| Other                                            | (842)                   | (7,943)                              |
| Total deferred tax liabilities                   | (8,616)                 | (81,283)                             |
| Deferred tax assets, net                         | ¥46,236                 | \$436,189                            |

(2) Reconciliation between the statutory tax rate and effective tax rate is as follows:

|                           | Percent<br>2000 |
|---------------------------|-----------------|
| Statutory tax rate:       | 42.05%          |
| (Reconciliation)          |                 |
| Entertainment expenses    | (2.04)          |
| Dividend income           | 0.05            |
| Inhabitant tax per capita | (0.63)          |
| Other                     | (1.70)          |
| Effective tax rate        | 37.73%          |

## 9. MARKET VALUE INFORMATION OF INVESTMENTS IN SECURITIES

Market value information of listed corporate shares and other securities included in "Investments in securities" held by the Companies as at 31st March, 2000 is as follows:

|                     | Millions of yen |              |                 | Thousands of U.S. dollars |
|---------------------|-----------------|--------------|-----------------|---------------------------|
|                     | 2000            |              |                 | 2000                      |
|                     | Book value      | Market value | Unrealised gain | Unrealised gain           |
| Non-current assets: |                 |              |                 |                           |
| Shares              | ¥1,293          | ¥2,938       | ¥1,645          | \$15,519                  |
| Other securities    | —               | —            | —               | —                         |
| Total               | ¥1,293          | ¥2,938       | ¥1,645          | \$15,519                  |

Notes:

(1) Source of market value:

  Listed securities—principally based on the last price on the Tokyo Stock Exchange

  Over-the-counter securities—based on trading prices issued by the Japan Securities Dealers Association

(2) Book value of securities, which are excluded from the above table:

  Non-current assets: unlisted securities (excluding over-the-counter securities)

  Book value: ¥12,245 million as at 31st March, 2000

(3) Market value information of investments in securities on a non-consolidated basis as at 31st March, 1999 is disclosed in Note 13, "MARKET VALUE INFORMATION OF INVESTMENTS IN SECURITIES," which is included in the non-consolidated financial statements.

## 10. INFORMATION ON DERIVATIVES

The Company uses derivative financial instruments, which comprise principally foreign forward exchange contracts and interest rate and currency swap agreements, to reduce its exposure to market risks from fluctuations in foreign currency exchange and interest rates. The Company does not hold or issue financial instruments for trading purposes.

Although the Company may be exposed to losses in the event of nonperformance by counterparties or interest and currency fluctuations, it does not anticipate significant losses from the arrangements previously described.

As at 31st March, 2000, currency swap and interest swap contracts outstanding at year-end were as follows:

### (1) Currency Swap

|                                  | Millions of yen |                            |            |                       | Thousands of U.S. dollars |
|----------------------------------|-----------------|----------------------------|------------|-----------------------|---------------------------|
|                                  | 2000            |                            |            |                       | 2000                      |
|                                  | Notional amount | Of which due over one year | Fair value | Valuation gain (loss) | Valuation gain (loss)     |
| Currency swap:                   |                 |                            |            |                       |                           |
| Receiving dollars and paying yen | ¥15,000         | ¥15,000                    | ¥686       | ¥686                  | \$6,472                   |
| Total                            | ¥15,000         | ¥15,000                    | ¥686       | ¥686                  | \$6,472                   |

## (2) Interest Rate Swap

|                                                 | Millions of yen    |                               |               |                          | Thousands of<br>U.S. dollars |
|-------------------------------------------------|--------------------|-------------------------------|---------------|--------------------------|------------------------------|
|                                                 | 2000               |                               |               |                          | 2000                         |
|                                                 | Notional<br>amount | Of which due<br>over one year | Fair<br>value | Valuation<br>gain (loss) | Valuation<br>gain (loss)     |
| Interest rate swap:                             |                    |                               |               |                          |                              |
| Receiving floating rates and paying fixed rates | ¥7,700             | ¥3,400                        | ¥(183)        | ¥(183)                   | \$ (1,726)                   |
| Total                                           | ¥7,700             | ¥3,400                        | ¥(183)        | ¥(183)                   | \$ (1,726)                   |

### Notes:

(1) All subsidiaries did not use derivative financial instruments as at 31st March, 2000.

(2) Information on derivatives on a non-consolidated basis as at 31st March, 1999 is disclosed in Note 14, "INFORMATION ON DERIVATIVES," which is included in the non-consolidated financial statements.

## 11. SEGMENT INFORMATION

### (1) By Business Type

#### For the years ended 31st March, 1998 and 1999

The Companies were a provider of data communications services, a single segment. Accordingly, segment information by business type is not presented.

### For the year ended 31st March, 2000

To provide useful information, the Companies have designated three industrial segments (System Integration (SI), Network System Services and Others) to strengthen new business and improve competitiveness in SI business from the point of view of their present management policy from this fiscal year.

| For the year ended 31st March, 2000                       | Millions of yen       |                               |          |          |                             |              | Thousands of<br>U.S. dollars |
|-----------------------------------------------------------|-----------------------|-------------------------------|----------|----------|-----------------------------|--------------|------------------------------|
|                                                           | System<br>Integration | Network<br>System<br>Services | Others   | Total    | Elimination<br>or corporate | Consolidated | Consolidated                 |
| I Net sales and operating income<br>(expenses)            |                       |                               |          |          |                             |              |                              |
| Net sales:                                                |                       |                               |          |          |                             |              |                              |
| (1) External customers                                    | ¥583,725              | ¥48,714                       | ¥ 92,909 | ¥725,348 | ¥ —                         | ¥ 725,348    | \$ 6,842,906                 |
| (2) Intersegment or transfer                              | 3,104                 | 394                           | 10,630   | 14,128   | (14,128)                    | —            | —                            |
| Total                                                     | ¥586,829              | ¥49,108                       | ¥103,539 | ¥739,476 | ¥ (14,128)                  | ¥ 725,348    | \$ 6,842,906                 |
| Operating expenses                                        | ¥533,379              | ¥44,520                       | ¥ 97,344 | ¥675,243 | ¥ (633)                     | ¥ 674,610    | \$ 6,364,246                 |
| Operating income                                          | ¥ 53,450              | ¥ 4,588                       | ¥ 6,195  | ¥ 64,233 | ¥ (13,495)                  | ¥ 50,738     | \$ 478,660                   |
| II Total assets, depreciation<br>and capital expenditures |                       |                               |          |          |                             |              |                              |
| Total assets                                              | ¥787,354              | ¥42,875                       | ¥102,231 | ¥932,460 | ¥139,193                    | ¥1,071,653   | \$10,109,934                 |
| Depreciation                                              | ¥119,155              | ¥ 6,516                       | ¥ 5,195  | ¥130,866 | ¥ 401                       | ¥ 131,267    | \$ 1,238,368                 |
| Capital expenditures                                      | ¥194,742              | ¥ 9,887                       | ¥ 5,691  | ¥210,320 | ¥ 55                        | ¥ 210,375    | \$ 1,984,670                 |

Notes:

(1) Classification of business was based on the types of services provided and the similarity of related markets and relevant assets.

(2) Major products of each business type are as follows:

| Business Type           | Major Products                                                                                                                                                                                                    |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| System Integration      | In response to customers' unique needs, to develop data communications systems, sell and lease such systems and provide system integration and other related services                                             |
| Network System Services | In accordance with market needs, to provide a variety of information as well as data-processing and other services based on the Internet and other computer networks                                              |
| Others                  | To research, identify and evaluate customers' management issues, plan and propose strategic plans for data communications systems, perform maintenance and facility management and provide other related services |

(3) Unallocated operating expenses, included in "Elimination or Corporate," amounted to ¥13,495 million. Such expenses primarily occurred in the administrative section of the General Affairs Department of the Company.

(4) Corporate assets, included in "Elimination or Corporate," amounted to ¥139,193 million. Such assets include temporary cash investments (cash on hand and at bank) and assets in the administrative division of the Company.

### **(2) By Business Area**

#### ***For the years ended 31st March, 1998 and 1999***

Not applicable because there were no foreign consolidated subsidiaries or significant overseas branches

#### ***For the year ended 31st March, 2000***

Not applicable because there were no foreign consolidated subsidiaries or significant overseas branches

### **(3) Net Sales—Overseas**

#### ***For the years ended 31st March, 1998 and 1999***

The information is not required to be disclosed because net sales overseas represent less than 10% of consolidated net sales.

#### ***For the year ended 31st March, 2000***

The information is not required to be disclosed because net sales overseas represent less than 10% of consolidated net sales.

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## **12. SUBSEQUENT EVENT**

On 21st June, 2000, the Company issued 1.88% yen bonds due 21st June, 2010, in the principal amount of ¥30,000 million at the issue price of ¥99.93 per par value of ¥100, based

on a resolution made by the Board of Directors at the meeting held on 22nd May, 2000.

# Report of Independent Certified Public Accountants on the Consolidated Financial Statements

ChuoAoyama Audit Corporation

PRICEWATERHOUSECOOPERS 

Kasumigaseki Bldg. 32nd Floor  
3-2-5, Kasumigaseki, Chiyoda-ku,  
Tokyo 100-6088, Japan

**To: The Board of Directors of  
NTT DATA CORPORATION**

We have audited the accompanying consolidated balance sheets of NTT DATA CORPORATION and its consolidated subsidiaries as at 31st March, 1999 and 2000, and the related consolidated statements of operations, shareholders' equity for the years ended 31st March, 1998, 1999 and 2000 and the statement of cash flows for the year ended 31st March, 2000, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of NTT DATA CORPORATION and its consolidated subsidiaries as at 31st March, 1999 and 2000, and the consolidated results of their operations for the years ended 31st March, 1998, 1999 and 2000, and their cash flows for the year ended 31st March, 2000 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the changes, with which we concur, in accounting for allocation of expenses related to company houses as described in detail in Note 1 (3), "Change of Accounting Policy" and provision for retirement benefits as described in detail in Note 2 (10), "Reserve for Retirement Benefits," of the Notes to the Consolidated Financial Statements.

As described in Note 2, "Summary of Significant Accounting Policies," and Note 8, "Deferred Tax Assets," of the Notes to the Consolidated Financial Statements, effective for the year ended 31st March, 2000, NTT DATA CORPORATION and its subsidiaries have adopted new Japanese accounting standards for preparation of consolidated financial statements, accounting for research and development expenses and accounting for deferred income taxes.

The amounts expressed in U.S. dollars, provided solely for the convenience of the readers, have been translated on the basis set forth in Note 3.

*ChuoAoyama Audit Corporation*

ChuoAoyama Audit Corporation

Tokyo, Japan  
27th June, 2000

# Non-Consolidated Six-Year Summary

NTT DATA CORPORATION  
Years ended 31st March

|                             | Millions of yen  |           |           |           |           |           | Thousands of U.S. dollars |
|-----------------------------|------------------|-----------|-----------|-----------|-----------|-----------|---------------------------|
|                             | 1995             | 1996      | 1997      | 1998      | 1999      | 2000      | 2000                      |
| Net Sales                   | ¥470,518         | ¥553,563  | ¥602,837  | ¥669,228  | ¥ 705,465 | ¥ 716,430 | \$ 6,758,774              |
| Data Communications         |                  |           |           |           |           |           |                           |
| Service                     | 261,033          | 302,920   | 339,119   | 373,060   | 383,740   | —         | —                         |
| Systems Development Service | 159,242          | 193,080   | 195,394   | 213,723   | 228,883   | —         | —                         |
| Other Services              | 50,243           | 57,563    | 68,324    | 82,445    | 92,842    | —         | —                         |
| System Integration          | —                | —         | —         | —         | —         | 576,253   | 5,436,349                 |
| Network System Services     | —                | —         | —         | —         | —         | 48,751    | 459,915                   |
| Others                      | —                | —         | —         | —         | —         | 91,426    | 862,510                   |
| Cost of Sales               | 336,137          | 396,568   | 440,722   | 493,034   | 521,260   | 534,504   | 5,042,491                 |
| Operating Income            | 43,295           | 54,484    | 51,408    | 53,242    | 56,205    | 50,498    | 476,396                   |
| Income (Loss) before        |                  |           |           |           |           |           |                           |
| Income Taxes                | 20,248           | 25,095    | 33,950    | 33,492    | 37,181    | (29,418)  | (277,528)                 |
| Net Income (Loss)           | 7,208            | 11,451    | 14,205    | 15,402    | 16,271    | (17,997)  | (169,783)                 |
| New Orders Received         | 441,431          | 570,472   | 585,005   | 573,602   | 659,978   | 704,733   | 6,648,425                 |
| Property and Equipment,     |                  |           |           |           |           |           |                           |
| at Cost                     | 702,276          | 754,927   | 857,596   | 932,539   | 1,068,958 | 991,344   | 9,352,302                 |
| Less: Accumulated           |                  |           |           |           |           |           |                           |
| Depreciation                | (306,504)        | (360,811) | (433,033) | (500,565) | (551,298) | (564,804) | (5,328,340)               |
| Total Assets                | 718,180          | 809,566   | 849,178   | 896,583   | 997,876   | 1,064,852 | 10,045,774                |
| Long-Term Debt              | 396,964          | 364,296   | 352,233   | 364,202   | 372,735   | 382,411   | 3,607,651                 |
| Total Shareholders' Equity  | 49,943           | 181,719   | 193,109   | 205,889   | 369,298   | 363,013   | 3,424,651                 |
| Capital Expenditures        | 172,311          | 151,945   | 190,165   | 161,706   | 236,098   | 211,189   | 1,992,349                 |
| Research and Development    |                  |           |           |           |           |           |                           |
| Expenses                    | 12,354           | 14,391    | 14,783    | 15,874    | 14,042    | 22,703    | 214,179                   |
| Return on Equity (%)        | 15.4             | 9.9       | 7.6       | 7.7       | 5.7       | (4.9)     | —                         |
| Return on Assets (%)        | 1.1              | 1.5       | 1.7       | 1.8       | 1.7       | (1.7)     | —                         |
|                             | Yen              |           |           |           |           |           | U.S. dollars              |
| Per Share:                  |                  |           |           |           |           |           |                           |
| Net Income (Loss)           | ¥36,040          | ¥51,225   | ¥56,148   | ¥60,877   | ¥ 5,890   | ¥(6,416)  | \$ (60.53)                |
| Cash Dividends              | 5,000            | 10,000    | 10,000    | 10,000    | 1,000     | 1,000     | 9.43                      |
| Payout Ratio (%)            | 13.9             | 21.4      | 17.8      | 16.4      | 17.2      | —         | —                         |
| Dividends on Equity (%)     | 2.0              | 1.3       | 1.3       | 1.2       | 0.8       | 0.8       | —                         |
| Number of Employees         | 9,609            | 9,760     | 9,916     | 10,098    | 10,334    | 9,307     | —                         |
|                             | Thousands of yen |           |           |           |           |           | Thousands of U.S. dollars |
| Net Sales per Employee      | ¥49,659          | ¥57,160   | ¥61,276   | ¥66,876   | ¥69,055   | ¥75,990   | \$717                     |
| Net Income per Employee     | 761              | 1,182     | 1,444     | 1,539     | 1,593     | —         | —                         |
| Total Shareholders' Equity  |                  |           |           |           |           |           |                           |
| per Employee                | 5,271            | 18,764    | 19,629    | 20,574    | 36,149    | 38,504    | 363                       |

## Notes:

(1) Until fiscal 1999, ended 31st March, 1999, NTT DATA's net sales were classified according to three operation types: Data Communications Service, Systems Development Service, and Other Services. From fiscal 2000, NTT DATA has decided to classify its business according to three new business types: System Integration (SI), the Company's core business, Network System Services, which incorporates all high-growth Internet-related business, and Others. The reclassification has been undertaken to better reflect the actual state of the Company's business and thereby provide fuller disclosure of information in accordance with the Company's current management policies which emphasize the progressive upgrading of new businesses and the enhancement of competitiveness in the SI Business.

According to the classifications used previously, sales in fiscal 2000 were as follows:

|                             |                                         |
|-----------------------------|-----------------------------------------|
| Data Communications Service | ¥397,504 million (\$3,750,038 thousand) |
| Systems Development Service | ¥212,414 million (\$2,003,906 thousand) |
| Other Services              | ¥106,512 million (\$1,004,830 thousand) |

(2) Until fiscal 1999, numbers of personnel have included NTT DATA employees seconded from NTT DATA to other companies and not employees of other companies seconded to NTT DATA. It has been decided that from the fiscal year under review, employees seconded from NTT DATA to other companies will not be included but employees seconded to NTT DATA will be included in numbers of personnel.

In the period under review, there were 1,239 NTT DATA employees on secondment from NTT DATA to other companies and 46 employees on secondment to NTT DATA from other companies.

(3) Various statistics concerning employees have previously been calculated from the average number of employees at the fiscal year-beginning and year-end. Due to the aforementioned change in the method of calculating the number of employees, these statistics are not listed for the period under review.

According to the method of counting employees previously used, net sales per employee amounted to ¥68,775 thousand (\$649 thousand), and shareholders' equity per employee amounted to ¥34,848 thousand (\$329 thousand).

# Non-Consolidated Balance Sheets

NTT DATA CORPORATION  
Years ended 31st March, 1999 and 2000

| ASSETS                                                | Millions of yen |            | Thousands of<br>U.S. dollars<br>(Note 3) |
|-------------------------------------------------------|-----------------|------------|------------------------------------------|
|                                                       | 1999            | 2000       | 2000                                     |
| <b>Current Assets:</b>                                |                 |            |                                          |
| Cash on hand and at banks                             | ¥ 94,039        | ¥ 87,277   | \$ 823,368                               |
| Accounts receivable:                                  |                 |            |                                          |
| Outside clients                                       | 91,325          | 100,253    | 945,783                                  |
| “NTT”                                                 | 11,731          | 24         | 226                                      |
| Subsidiaries and affiliates                           | 3,816           | 3,267      | 30,821                                   |
|                                                       | 106,872         | 103,544    | 976,830                                  |
| Less: allowance for bad debts                         | (515)           | (394)      | (3,717)                                  |
|                                                       | 106,357         | 103,150    | 973,113                                  |
| Jobs and software in progress (Note 4)                | 54,991          | 39,430     | 371,981                                  |
| Supplies                                              | 2,240           | 3,059      | 28,858                                   |
| Prepaid expenses                                      | 3,702           | 4,307      | 40,632                                   |
| Deferred tax assets—current (Note 12)                 | —               | 12,105     | 114,198                                  |
| Other current assets                                  | 10,019          | 9,373      | 88,425                                   |
| Total current assets                                  | 271,348         | 258,701    | 2,440,575                                |
| <b>Investments and Advances:</b>                      |                 |            |                                          |
| Investments in securities (Note 13)                   | 6,437           | 6,019      | 56,783                                   |
| Investments in subsidiaries and affiliates            | 7,221           | 9,312      | 87,849                                   |
| Other investments and advances                        | 3,139           | 5,016      | 47,321                                   |
| Total investments and advances                        | 16,797          | 20,347     | 191,953                                  |
| <b>Property and Equipment, at Cost</b> (Note 5)       | 1,068,958       | 991,344    | 9,352,302                                |
| Less: accumulated depreciation                        | (551,298)       | (564,804)  | (5,328,340)                              |
|                                                       | 517,660         | 426,540    | 4,023,962                                |
| <b>Fixed Leasehold Deposits</b> (Note 6)              | 29,897          | 29,602     | 279,264                                  |
| <b>Deferred Tax Assets—Non-Current</b> (Note 12)      | —               | 32,838     | 309,792                                  |
| <b>Deferred Charges and Intangibles:</b>              |                 |            |                                          |
| Software                                              | 159,181         | 178,077    | 1,679,972                                |
| Development cost of software in progress (Note 1 (3)) | —               | 115,346    | 1,088,170                                |
| Other                                                 | 2,993           | 3,401      | 32,086                                   |
|                                                       | 162,174         | 296,824    | 2,800,228                                |
|                                                       | ¥ 997,876       | ¥1,064,852 | \$10,045,774                             |

The accompanying notes are an integral part of the statements.



| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                              | Millions of yen |            | Thousands of<br>U.S. dollars<br>(Note 3) |
|--------------------------------------------------------------------------|-----------------|------------|------------------------------------------|
|                                                                          | 1999            | 2000       | 2000                                     |
| <b>Current Liabilities:</b>                                              |                 |            |                                          |
| Short-term bank loans                                                    | ¥ —             | ¥ 4,000    | \$ 37,736                                |
| Current portion of long-term debt                                        | 57,880          | 63,790     | 601,792                                  |
| Accounts payable:                                                        |                 |            |                                          |
| Suppliers                                                                | 55,631          | 81,597     | 769,783                                  |
| “NTT”                                                                    | 723             | 105        | 991                                      |
| Subsidiaries and affiliates                                              | 9,846           | 1,815      | 17,123                                   |
| Subcontracting fees and other                                            | 30,708          | 26,296     | 248,075                                  |
|                                                                          | 96,908          | 109,813    | 1,035,972                                |
| Income taxes payable (Note 2 (6))                                        | 12,352          | 17,265     | 162,877                                  |
| Accrued expenses                                                         | 8,351           | 8,110      | 76,509                                   |
| Advances received                                                        | 10,028          | 10,705     | 100,991                                  |
| Other current liabilities                                                | 3,241           | 3,919      | 36,972                                   |
| Total current liabilities                                                | 188,760         | 217,602    | 2,052,849                                |
| <b>Long-Term Debt</b>                                                    | 372,735         | 382,411    | 3,607,651                                |
| <b>Reserve for Retirement Benefits</b> (Notes 2 (8) and (9))             | 58,708          | 99,545     | 939,104                                  |
| <b>Long-Term Accrued Expenses</b> (Note 2 (8))                           | 8,375           | 2,281      | 21,519                                   |
| Total liabilities                                                        | 628,578         | 701,839    | 6,621,123                                |
| <b>Commitments and Contingent Liabilities</b> (Note 7)                   |                 |            |                                          |
| <b>Shareholders' Equity:</b>                                             |                 |            |                                          |
| Common stock, par value—¥5,000 per share at 31st March, 1999<br>and 2000 |                 |            |                                          |
| Authorized—11,220,000 shares at 31st March, 1999 and 2000                |                 |            |                                          |
| Issued—2,805,000 shares at 31st March, 1999 and 2000                     | 142,520         | 142,520    | 1,344,528                                |
| Additional paid-in capital                                               | 139,300         | 139,300    | 1,314,151                                |
| Legal reserve (Note 8)                                                   | 1,553           | 1,845      | 17,406                                   |
| Special tax-purpose reserve                                              | 23,113          | 12,252     | 115,585                                  |
| General reserve (Note 8)                                                 | 44,000          | 59,000     | 556,604                                  |
| Retained earnings (Note 15)                                              | 18,812          | 8,096      | 76,377                                   |
| Total shareholders' equity                                               | 369,298         | 363,013    | 3,424,651                                |
|                                                                          | ¥ 997,876       | ¥1,064,852 | \$10,045,774                             |

# Non-Consolidated Statements of Operations

NTT DATA CORPORATION

For the years ended 31st March, 1998, 1999 and 2000

|                                                                             | Millions of yen |          |                  | Thousands of<br>U.S. dollars<br>(Note 3) |
|-----------------------------------------------------------------------------|-----------------|----------|------------------|------------------------------------------|
|                                                                             | 1998            | 1999     | 2000             | 2000                                     |
| <b>Net Sales</b> (Notes 9 and 10)                                           | ¥669,228        | ¥705,465 | <b>¥716,430</b>  | <b>\$6,758,774</b>                       |
| <b>Cost of Sales</b> (Notes 1 (4) and 9)                                    | 493,034         | 521,260  | <b>534,504</b>   | <b>5,042,491</b>                         |
| Gross profit                                                                | 176,194         | 184,205  | <b>181,926</b>   | <b>1,716,283</b>                         |
| <b>Selling, General and Administrative Expenses</b><br>(Notes 1 (4) and 11) | 122,952         | 128,000  | <b>131,428</b>   | <b>1,239,887</b>                         |
| Operating income                                                            | 53,242          | 56,205   | <b>50,498</b>    | <b>476,396</b>                           |
| <b>Non-Operating Income (Expenses):</b>                                     |                 |          |                  |                                          |
| Interest income                                                             | 226             | 551      | <b>62</b>        | <b>585</b>                               |
| Interest expenses                                                           | (15,438)        | (11,734) | <b>(10,127)</b>  | <b>(95,538)</b>                          |
| Lease rental income on buildings (Note 9)                                   | 965             | 791      | <b>1,057</b>     | <b>9,972</b>                             |
| Cost of lease rental buildings                                              | (625)           | (515)    | <b>(613)</b>     | <b>(5,783)</b>                           |
| Amortization of past service cost of the pension plan<br>(Note 2 (8))       | (1,843)         | (2,008)  | <b>(987)</b>     | <b>(9,311)</b>                           |
| New share issue expenses                                                    | —               | (5,148)  | —                | —                                        |
| Prior year's research and development expenses                              | —               | —        | <b>(23,755)</b>  | <b>(224,104)</b>                         |
| Provision for retirement benefits                                           | —               | —        | <b>(40,245)</b>  | <b>(379,670)</b>                         |
| Others, net                                                                 | (3,035)         | (961)    | <b>(5,308)</b>   | <b>(50,075)</b>                          |
|                                                                             | (19,750)        | (19,024) | <b>(79,916)</b>  | <b>(753,924)</b>                         |
| Income (loss) before income taxes                                           | 33,492          | 37,181   | <b>(29,418)</b>  | <b>(277,528)</b>                         |
| <b>Income Taxes</b> (Note 2 (6)):                                           |                 |          |                  |                                          |
| Current                                                                     | 18,090          | 20,910   | <b>18,887</b>    | <b>178,179</b>                           |
| Deferred                                                                    | —               | —        | <b>(30,308)</b>  | <b>(285,924)</b>                         |
|                                                                             | 18,090          | 20,910   | <b>(11,421)</b>  | <b>(107,745)</b>                         |
| Net income (loss)                                                           | ¥ 15,402        | ¥ 16,271 | <b>¥(17,997)</b> | <b>\$ (169,783)</b>                      |
|                                                                             |                 | Yen      |                  | U.S. dollars                             |
| <b>Per Share:</b>                                                           |                 |          |                  |                                          |
| Net income (loss)                                                           | ¥ 60,877        | ¥ 5,890  | <b>¥ (6,416)</b> | <b>\$ (60.53)</b>                        |
| Cash dividends                                                              | 10,000          | 1,000    | <b>1,000</b>     | <b>9.43</b>                              |

The accompanying notes are an integral part of the statements.

# Non-Consolidated Statements of Shareholders' Equity

NTT DATA CORPORATION

For the years ended 31st March, 1998, 1999 and 2000

|                                                                                     | Number of<br>shares<br>issued | Millions of yen |                                  |                  |                                   |                    |                      |
|-------------------------------------------------------------------------------------|-------------------------------|-----------------|----------------------------------|------------------|-----------------------------------|--------------------|----------------------|
|                                                                                     |                               | Common<br>stock | Additional<br>paid-in<br>capital | Legal<br>reserve | Special<br>tax-purpose<br>reserve | General<br>reserve | Retained<br>earnings |
| <b>Balance at 31st March, 1997</b>                                                  | 253,000                       | ¥ 67,335        | ¥ 64,115                         | ¥ 968            | ¥ 21,246                          | ¥ 24,000           | ¥ 15,445             |
| Net income for the year ended 31st March, 1998                                      | —                             | —               | —                                | —                | —                                 | —                  | 15,402               |
| Cash dividends                                                                      | —                             | —               | —                                | —                | —                                 | —                  | (2,530)              |
| Transfer to legal reserve                                                           | —                             | —               | —                                | 262              | —                                 | —                  | (262)                |
| Bonuses to directors and statutory auditors                                         | —                             | —               | —                                | —                | —                                 | —                  | (92)                 |
| Transfer to special tax-purpose reserve                                             | —                             | —               | —                                | —                | 1,842                             | —                  | (1,842)              |
| Transfer to general reserve                                                         | —                             | —               | —                                | —                | —                                 | 9,000              | (9,000)              |
| <b>Balance at 31st March, 1998</b>                                                  | 253,000                       | 67,335          | 64,115                           | 1,230            | 23,088                            | 33,000             | 17,121               |
| Net income for the year ended 31st March, 1999                                      | —                             | —               | —                                | —                | —                                 | —                  | 16,271               |
| Cash dividends                                                                      | —                             | —               | —                                | —                | —                                 | —                  | (3,110)              |
| Transfer to legal reserve                                                           | —                             | —               | —                                | 323              | —                                 | —                  | (323)                |
| Bonuses to directors and statutory auditors                                         | —                             | —               | —                                | —                | —                                 | —                  | (122)                |
| Transfer to special tax-purpose reserve                                             | —                             | —               | —                                | —                | 25                                | —                  | (25)                 |
| Transfer to general reserve                                                         | —                             | —               | —                                | —                | —                                 | 11,000             | (11,000)             |
| New shares issued on 12th May, 1998                                                 | 27,500                        | 75,185          | 75,185                           | —                | —                                 | —                  | —                    |
| Stock split at a rate of 1 into 10                                                  | 2,524,500                     | —               | —                                | —                | —                                 | —                  | —                    |
| <b>Balance at 31st March, 1999</b>                                                  | 2,805,000                     | 142,520         | 139,300                          | 1,553            | 23,113                            | 44,000             | 18,812               |
| Net loss for the year ended 31st March, 2000                                        | —                             | —               | —                                | —                | —                                 | —                  | (17,997)             |
| Cash dividends                                                                      | —                             | —               | —                                | —                | —                                 | —                  | (2,805)              |
| Transfer to legal reserve                                                           | —                             | —               | —                                | 292              | —                                 | —                  | (292)                |
| Bonuses to directors and statutory auditors                                         | —                             | —               | —                                | —                | —                                 | —                  | (118)                |
| Transfer to special tax-purpose reserve                                             | —                             | —               | —                                | —                | (1,971)                           | —                  | 1,971                |
| Transfer to general reserve                                                         | —                             | —               | —                                | —                | —                                 | 15,000             | (15,000)             |
| Prior year's adjustments for<br>adoption of deferred tax accounting                 | —                             | —               | —                                | —                | —                                 | —                  | 14,635               |
| Reversal of special tax purpose reserve with<br>adoption of deferred tax accounting | —                             | —               | —                                | —                | (8,890)                           | —                  | 8,890                |
| <b>Balance at 31st March, 2000</b>                                                  | <b>2,805,000</b>              | <b>¥142,520</b> | <b>¥139,300</b>                  | <b>¥1,845</b>    | <b>¥12,252</b>                    | <b>¥59,000</b>     | <b>¥ 8,096</b>       |

|                                                                                     | Number of<br>shares<br>issued | Thousands of U.S. dollars (Note 3) |                                  |                  |                                   |                    |                      |
|-------------------------------------------------------------------------------------|-------------------------------|------------------------------------|----------------------------------|------------------|-----------------------------------|--------------------|----------------------|
|                                                                                     |                               | Common<br>stock                    | Additional<br>paid-in<br>capital | Legal<br>reserve | Special<br>tax-purpose<br>reserve | General<br>reserve | Retained<br>earnings |
| <b>Balance at 31st March, 1999</b>                                                  | 2,805,000                     | \$ 1,344,528                       | \$ 1,314,151                     | \$ 14,651        | \$ 218,046                        | \$ 415,095         | \$ 177,472           |
| Net loss for the year ended 31st March, 2000                                        | —                             | —                                  | —                                | —                | —                                 | —                  | (169,783)            |
| Cash dividends                                                                      | —                             | —                                  | —                                | —                | —                                 | —                  | (26,462)             |
| Transfer to legal reserve                                                           | —                             | —                                  | —                                | 2,755            | —                                 | —                  | (2,755)              |
| Bonuses to directors and statutory auditors                                         | —                             | —                                  | —                                | —                | —                                 | —                  | (1,113)              |
| Transfer to special tax-purpose reserve                                             | —                             | —                                  | —                                | —                | (18,593)                          | —                  | 18,593               |
| Transfer to general reserve                                                         | —                             | —                                  | —                                | —                | —                                 | 141,509            | (141,509)            |
| Prior year's adjustments for<br>adoption of deferred tax accounting                 | —                             | —                                  | —                                | —                | —                                 | —                  | 138,066              |
| Reversal of special tax purpose reserve with<br>adoption of deferred tax accounting | —                             | —                                  | —                                | —                | (83,868)                          | —                  | 83,868               |
| <b>Balance at 31st March, 2000</b>                                                  | <b>2,805,000</b>              | <b>\$1,344,528</b>                 | <b>\$1,314,151</b>               | <b>\$17,406</b>  | <b>\$115,585</b>                  | <b>\$556,604</b>   | <b>\$ 76,377</b>     |

The accompanying notes are an integral part of the statements.

# Notes to the Non-Consolidated Financial Statements

NTT DATA CORPORATION

## 1. BASIS OF PRESENTING THE NON-CONSOLIDATED FINANCIAL STATEMENTS

### (1) Accounting Principles

The accompanying non-consolidated financial statements of NTT DATA CORPORATION (the "Company") have been prepared from accounts and records maintained by the Company in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Relevant notes have been added, and certain reclassifications of account balances as disclosed in the basic non-consolidated financial statements in Japan have been made, so as to present them in a form that is more familiar to readers outside Japan.

The non-consolidated financial statements are not intended to present the non-consolidated financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

### (2) Nippon Telegraph and Telephone Corporation ("NTT")

The Company is a subsidiary of NTT, which owned 1,520,010 shares, or 54.18%, of common stock of the Company at 31st March, 2000.

### (3) Change in Presentation of Accounts

Due to the amendments of the Non-Consolidated Financial Statements Regulation of Japan, the following presentations of the accounts in the non-consolidated financial statements have been changed for the fiscal year ended 31st March, 2000.

Previously, costs of software for internal use under development were included in "Property and Equipment, at Cost." In this fiscal year, the cost has been separately disclosed as "Development costs of software in progress" on the non-consolidated balance sheets.

### (4) Change of Accounting Policy

Allocation of expenses related to Company housing:

Previously, social and welfare expenses related to company houses were included in "Selling, General and Administrative Expenses." In this fiscal year, such expenses have been allocated to "Selling, General and Administrative Expenses," "Cost of Goods" and "Cost of Sales." This accounting change decreased "Selling, General and Administrative Expenses" ¥2,737 million (\$25,821 thousand), while it increased "Cost of Goods" and "Cost of Sales" the same amount. This change is not material to "Operating income" and "Loss before income taxes."

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Inventories

Jobs and software in progress is stated at cost, which is determined on an individual project basis.

Supplies are valued at cost, which is determined by the first-in, first-out method.

### (2) Valuation of Securities

Securities having market quotations on stock exchanges included in marketable securities (current portfolio) or investments in securities (non-current portfolio) are valued at the lower of cost or market value, cost being determined by the moving-average method. Other securities are valued at cost, which is determined by the moving-average method.

### (3) Investments in Subsidiaries and Affiliates

Investments in subsidiaries (majority-owned companies and 40% to 50% owned companies which are controlled by the Company, substantially) and affiliates (20% to 50% owned companies and 15% to 20% owned companies which are affected by the Company, substantially) are valued at cost. The equity method of accounting for investments in common stock of subsidiaries and affiliates has not been followed by the Company in the accompanying non-consolidated financial statements under Japanese accounting practices. Appropriate write-downs are recorded for investments in certain companies

in cases where their value has declined substantially and such impairments of value are not deemed temporary.

### (4) Property and Equipment

Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of assets that are prescribed by the Japanese income tax laws. The range of useful lives is principally from three to 50 years for buildings, structures and facilities and from two to 20 years for machinery, vehicles, equipment, furniture and tools.

Normal repairs and maintenance, including minor renovations and improvements, are charged to expenses as incurred.

The Company has changed the depreciation method of buildings (except for building improvements) which were acquired after 1st April, 1998 from the declining-balance method to the straight-line method pursuant to the amendments to the corporate income tax laws, which took effect from the year starting on and after 1st April, 1998.

### (5) Deferred Charges and Intangibles

#### 1) Intangible Assets

Amortization of intangible assets, except for software, is computed on the straight-line method over the period prescribed by the Japanese income tax laws.

Amortization of software is based on the following:

**a) Software developed for sale**

The amortization costs of software developed for external sale are computed as the higher of: (a) the amount based on sales in the year, as a proportion of total estimated sales over not more than a three-year sales period, or (b) the amount computed on a straight-line basis over the remaining sales period in which the software can be sold by the Company.

**b) Software developed for internal use**

Software for internal use is amortized on a straight-line basis over the estimated useful lives, not exceeding five years.

However, software which is exclusively developed for the purpose of tailor-made Data Communications Services to clients under specific contracts is amortized on a straight-line basis over the relevant contract period.

**2) Deferred Charges**

Bond issue expenses, bond discounts at issue and new share issue expenses are charged to expenses as incurred.

**(6) Income Taxes**

Income taxes of the Company consist of corporate income taxes, local inhabitants taxes and enterprise taxes.

In the year ended 31st March, 2000, the Company adopted the deferred tax accounting method in accordance with the amended regulations for the preparation of non-consolidated financial statements. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. The cumulative effect of adopting deferred tax accounting as at 1st April, 1999 was charged to retained earnings.

In the years ended 31st March, 1998 and 1999, income taxes of the Company were provided for at an amount currently payable based on the tax returns filed with tax authorities.

**(7) Allowance for Bad Debts**

The allowance for bad debts account is provided for in an amount equivalent to the maximum allowed deduction for tax purposes that is determined as a prescribed percentage of total receivables (net of any payables to whom the Company has receivables), plus the amount to cover all individual accounts that are estimated to be uncollectible.

**(8) Reserve for Retirement Benefits**

The "Reserve for retirement benefits" is provided in an amount equivalent to the undiscounted liability the Company would have been required to pay if all eligible employees had voluntarily retired at the balance sheet date. For the previous fiscal year, a reserve for retirement benefits was provided in an amount equivalent to the discounted present value of the liability the Company would have been required to pay under the

same circumstances. This accounting change was made for and for dealing with the shortage in the reserve for employees' retirement benefits based on pension accounting which will be adopted for the year ended 31st March, 2001. This accounting change increased "Provision for retirement benefits" of ¥40,245 million (\$379,670 thousand), which resulted in an increase in "Loss before income taxes" of the same amount.

In addition, the Company has a funded pension plan to cover a portion of the retirement benefits payable to employees. The past service costs arising from the adoption of the pension plan were recorded as long-term accrued expenses.

The balance of long-term accrued expenses is to be paid over an eight-year period from the adoption of the funded pension plan.

As of 31st March, 2000, the accumulated fund assets of the pension plan aggregated ¥38,239 million (\$360,745 thousand).

**(9) Reserve for Retirement Benefits to Directors and Statutory Auditors**

With respect to directors and statutory auditors, the Company has no legal obligation to pay retirement benefits: however, it is a customary practice in Japan to make lump-sum payments to a director or statutory auditor upon retirement with the approval of a general meeting of shareholders. Annual provisions are made in the accounts for the estimated costs of this termination plan, which is not funded. The balance of accrued retirement benefits relative to directors and statutory auditors in an amount of ¥611 million (\$5,764 thousand) is included in "Reserve for Retirement Benefits" in the accompanying non-consolidated balance sheet as at 31st March, 2000.

**(10) Dividends per Share**

Cash dividends per share shown for each year in the accompanying non-consolidated statements of operations represent dividends declared as applicable to the respective years.

**(11) Appropriation of Retained Earnings**

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the plan for appropriation of retained earnings (including cash dividend payments) proposed by the Board of Directors should be approved at the shareholders' meeting, which must be held within three months after the end of each fiscal year. The appropriation charged to retained earnings as reflected in the accompanying non-consolidated financial statements represents that applicable to the immediately preceding fiscal year that were approved at the shareholders' meeting and disposed of during that year.

As is customary in Japan, the payment of bonuses to directors and statutory auditors is made out of retained earnings instead of being charged to income for the year, which constitutes a part of the appropriations mentioned above.

### (12) Accounting for Consumption Tax

The consumption tax is imposed at a flat rate of 5% from 1st April, 1997 (3% before then) on all domestic consumption of goods and services (with certain exemptions). The amounts of consumption tax withheld by the Company upon sales and consumption tax paid by the Company on its purchases of goods

and services are not included in the amount of relevant accounts in the accompanying non-consolidated statements of operations but are recorded as assets or liabilities. Consumption tax withheld and paid by the Company is offset, and the net balance is included in "Other current liabilities" in the non-consolidated balance sheets.

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### 3. UNITED STATES DOLLAR AMOUNTS

The Company maintains its accounting records in yen. The dollar amounts included in the non-consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on a basis of ¥106=U.S.\$1. The

inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realised or settled in dollars at ¥106=U.S.\$1 or at any other rate.

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### 4. JOBS AND SOFTWARE IN PROGRESS

The "Jobs and software in progress" account for the Systems Development Service is generally represented by the accumulated costs of uncompleted jobs and software being developed/produced for clients by the Company.

When the jobs and software are completed and delivered to clients, sales are recognized and the accumulated costs are charged to "Cost of Sales."

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### 5. PROPERTY AND EQUIPMENT

Property and equipment at 31st March, 1999 and 2000 were as follows:

|                                | Millions of yen |                  | Thousands of<br>U.S. dollars |
|--------------------------------|-----------------|------------------|------------------------------|
|                                | 1999            | 2000             | 2000                         |
| Data communication facilities  | ¥636,580        | <b>¥636,792</b>  | <b>\$6,007,472</b>           |
| Buildings                      | 183,800         | <b>187,378</b>   | <b>1,767,717</b>             |
| Structures                     | 3,187           | <b>3,111</b>     | <b>29,349</b>                |
| Machinery and equipment        | 32,729          | <b>35,072</b>    | <b>330,868</b>               |
| Vehicles and cars              | 15              | <b>15</b>        | <b>141</b>                   |
| Furniture, fixtures and tools  | 29,929          | <b>28,364</b>    | <b>267,585</b>               |
|                                | 886,240         | <b>890,732</b>   | <b>8,403,132</b>             |
| Less: accumulated depreciation | (551,298)       | <b>(564,804)</b> | <b>(5,328,340)</b>           |
|                                | 334,942         | <b>325,928</b>   | <b>3,074,792</b>             |
| Land                           | 44,082          | <b>48,371</b>    | <b>456,330</b>               |
| Construction in progress       | 138,636         | <b>52,241</b>    | <b>492,840</b>               |
|                                | ¥517,660        | <b>¥426,540</b>  | <b>\$4,023,962</b>           |

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### 6. FIXED LEASEHOLD DEPOSITS

Fixed leasehold deposits as at 31st March, 1999 and 2000 are those paid to the lessors in connection with the leases of buildings and facilities for office space, computers and related equipment. Lessors in Japan require large amounts of leasehold

deposits equivalent to several months' lease rental payments. Such leasehold deposits do not bear interest and are generally returnable only when the lease is terminated.

## 7. COMMITMENTS AND CONTINGENT LIABILITIES

As at 31st March, 2000, the Company was contingently liable for guarantees of loans borrowed by Nippon Leisure Card System Co., Ltd. in an amount of ¥8,868 million (\$83,660 thousand).

All finance lease contracts other than those by which the ownership of the leased assets is to be transferred to lessees are accounted for by a method similar to the operating lease method.

Lease rental expenses on finance lease contracts without ownership transfer for the years ended 31st March, 1999 and 2000 were as follows:

|                       | Millions of yen |         | Thousands of U.S. dollars |
|-----------------------|-----------------|---------|---------------------------|
|                       | 1999            | 2000    | 2000                      |
| Lease rental expenses | ¥ 7,669         | ¥ 7,481 | \$ 70,575                 |

The amount of outstanding future lease payments due at 31st March, 1999 and 2000, which included the portion of interest thereon, was as follows:

|                        | Millions of yen |         | Thousands of U.S. dollars |
|------------------------|-----------------|---------|---------------------------|
|                        | 1999            | 2000    | 2000                      |
| Future lease payments: |                 |         |                           |
| Within one year        | ¥ 7,152         | ¥ 4,821 | \$ 45,481                 |
| Over one year          | 11,356          | 8,783   | 82,859                    |
|                        | ¥18,508         | ¥13,604 | \$128,340                 |

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased

assets (data communication equipment and other), which included the portion of interest thereon, were as follows:

|                          | Millions of yen |          | Thousands of U.S. dollars |
|--------------------------|-----------------|----------|---------------------------|
|                          | 1999            | 2000     | 2000                      |
| Acquisition cost         | ¥44,680         | ¥42,899  | \$404,708                 |
| Accumulated depreciation | (26,172)        | (29,295) | (276,368)                 |
| Net book value           | ¥18,508         | ¥13,604  | \$128,340                 |
| Depreciation*            | ¥ 7,669         | ¥ 7,481  | \$ 70,575                 |

\* Depreciation is based on the straight-line method over the lease term of the leased assets, assuming no residual value.

## 8. LEGAL RESERVE AND GENERAL RESERVE

The Japanese Commercial Code provides that an amount equal to at least 10% of cash distributions paid out of retained earnings be appropriated each year to a legal reserve until such reserve equals 25% of the common stock account. This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit by a resolution of the shareholders' meeting, but is not available for dividend payments.

The Company's Board of Directors, with subsequent approval by shareholders, has made annual appropriations of retained earnings for unspecified purposes, the accumulated balance of which is presented as "General reserve" in the accompanying non-consolidated financial statements. Any disposition of such appropriations shall be at the discretion of the Board of Directors and shareholders.

## 9. RELATED PARTY TRANSACTIONS

Transactions of the Company with its subsidiaries and affiliates for the years ended 31st March, 1998, 1999 and 2000 were as follows:

|                                  | Millions of yen |         |                 | Thousands of U.S. dollars |
|----------------------------------|-----------------|---------|-----------------|---------------------------|
|                                  | 1998            | 1999    | 2000            | 2000                      |
| Sales                            | ¥ 7,751         | ¥ 8,621 | ¥ <b>10,076</b> | \$ <b>95,057</b>          |
| Purchases                        | 53,959          | 71,046  | <b>103,071</b>  | <b>972,368</b>            |
| Lease rental income on buildings | 204             | 216     | <b>387</b>      | <b>3,651</b>              |

Transactions of the Company with NTT during the years ended 31st March, 1998, 1999 and 2000 were as follows:

|                                      | Millions of yen |         |                 | Thousands of U.S. dollars |
|--------------------------------------|-----------------|---------|-----------------|---------------------------|
|                                      | 1998            | 1999    | 2000            | 2000                      |
| Sales to NTT                         | ¥33,508         | ¥25,705 | ¥ <b>4,491</b>  | \$ <b>42,368</b>          |
| Purchases from NTT (Cost of Sales)   | ¥30,690         | ¥37,958 | ¥ <b>10,172</b> | \$ <b>95,962</b>          |
| Non-operating transactions with NTT: |                 |         |                 |                           |
| Lease rental income                  | ¥ 538           | ¥ 246   | ¥ <b>68</b>     | \$ <b>642</b>             |
| Other                                | 98              | 197     | <b>115</b>      | <b>1,085</b>              |
|                                      | ¥ 636           | ¥ 443   | ¥ <b>183</b>    | \$ <b>1,727</b>           |

Account balances with NTT as at 31st March, 1999 and 2000 were as follows:

|                     | Millions of yen |         | Thousands of U.S. dollars |                 |
|---------------------|-----------------|---------|---------------------------|-----------------|
|                     | 1999            | 2000    | 2000                      | 2000            |
| Due from NTT:       |                 |         |                           |                 |
| Accounts receivable |                 | ¥11,731 | ¥ <b>24</b>               | \$ <b>226</b>   |
| Other receivables   |                 | 408     | —                         | —               |
|                     |                 | ¥12,139 | ¥ <b>24</b>               | \$ <b>226</b>   |
| Due to NTT:         |                 |         |                           |                 |
| Accounts payable    |                 | ¥ 723   | ¥ <b>105</b>              | \$ <b>991</b>   |
| Other payables      |                 | 4,065   | <b>322</b>                | <b>3,038</b>    |
|                     |                 | ¥ 4,788 | ¥ <b>427</b>              | \$ <b>4,029</b> |

## 10. BREAKDOWN OF NET SALES

From the point of view of its present management policy, the Company changed the categorisation of their business to strengthen new businesses and its competitiveness in System Integration (SI) business.

The Company's net sales by new industry segments for the year ended 31st March, 2000 were as follows:

|                         | Millions of yen | Thousands of U.S. dollars |
|-------------------------|-----------------|---------------------------|
|                         | 2000            | 2000                      |
| System Integration      | ¥576,253        | \$5,436,349               |
| Network System Services | <b>48,751</b>   | <b>459,915</b>            |
| Others                  | <b>91,426</b>   | <b>862,510</b>            |
|                         | ¥716,430        | \$6,758,774               |



The breakdown by operation type for the years ended 31st March, 1998, 1999 and 2000 are as follows:

|                             | Millions of yen |          |          | Thousands of<br>U.S. dollars |
|-----------------------------|-----------------|----------|----------|------------------------------|
|                             | 1998            | 1999     | 2000     | 2000                         |
| Data Communications Service | ¥373,060        | ¥383,740 | ¥397,504 | \$3,750,038                  |
| Systems Development Service | 213,723         | 228,883  | 212,414  | 2,003,906                    |
| Other Services              | 82,445          | 92,842   | 106,512  | 1,004,830                    |
|                             | ¥669,228        | ¥705,465 | ¥716,430 | \$6,758,774                  |

## 11. BREAKDOWN OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The Company's selling, general and administrative expenses for the years ended 31st March, 1998, 1999 and 2000 are as follows:

|                                                   | Millions of yen |          |          | Thousands of<br>U.S. dollars |
|---------------------------------------------------|-----------------|----------|----------|------------------------------|
|                                                   | 1998            | 1999     | 2000     | 2000                         |
| Employees' salaries, wages and other payroll cost | ¥ 40,696        | ¥ 42,559 | ¥ 42,494 | \$ 400,887                   |
| Lease rentals                                     | 11,351          | 11,189   | 10,195   | 96,179                       |
| Research and development expenses                 | 15,874          | 14,042   | 22,703   | 214,179                      |
| Depreciation                                      | 7,442           | 7,282    | 6,176    | 58,264                       |
| Subcontractor expenses                            | 25,061          | 28,411   | 30,962   | 292,095                      |
| Advertising expenses                              | 2,800           | 3,514    | 2,707    | 25,538                       |
| Other                                             | 19,728          | 21,003   | 16,191   | 152,745                      |
|                                                   | ¥122,952        | ¥128,000 | ¥131,428 | \$1,239,887                  |

## 12. DEFERRED TAX ASSETS

The statutory tax rates used for calculating deferred tax assets and deferred tax liabilities as of 31st March, 2000 were 42.05%.

(1) At 31st March, 2000, significant components of deferred tax assets and liabilities were as follows:

|                                                  | Millions of yen | Thousands of<br>U.S. dollars |
|--------------------------------------------------|-----------------|------------------------------|
|                                                  | 2000            | 2000                         |
| Deferred tax assets:                             |                 |                              |
| Non-deductible provision for retirement benefits | ¥ 27,873        | \$262,953                    |
| Loss on write-down of inventories                | 10,802          | 101,906                      |
| Non-deductible depreciation                      | 9,119           | 86,028                       |
| Other                                            | 5,751           | 54,255                       |
| Total deferred tax assets                        | 53,545          | 505,142                      |
| Deferred tax liabilities:                        |                 |                              |
| Special tax purpose reserve                      | (7,771)         | (73,311)                     |
| Other                                            | (831)           | (7,840)                      |
| Total deferred tax liabilities                   | (8,602)         | (81,151)                     |
| Deferred tax assets, net                         | ¥ 44,943        | \$423,991                    |

(2) Reconciliation between the statutory tax rate and effective tax rate is as follows:

|                           | Percent       |
|---------------------------|---------------|
|                           | <b>2000</b>   |
| Statutory tax rate:       | <b>42.05%</b> |
| (Reconciliation)          |               |
| Entertainment expenses    | <b>(1.91)</b> |
| Dividend income           | <b>0.06</b>   |
| Inhabitant tax per capita | <b>(0.62)</b> |
| Other                     | <b>(0.76)</b> |
| Effective tax rate        | <b>38.82%</b> |

### 13. MARKET VALUE INFORMATION OF INVESTMENTS IN SECURITIES

Market value information of listed corporate shares included in "Investments in securities" held by Company at 31st March, 1999 was as follows:

|                         | Millions of yen |              |                 |
|-------------------------|-----------------|--------------|-----------------|
|                         | 1999            |              |                 |
|                         | Book value      | Market value | Unrealised gain |
| Listed corporate shares | ¥ 1,039         | ¥1,143       | ¥ 104           |

Due to the change in Japanese regulations, the market value information on investments in securities as at 31st March, 2000 is disclosed in Note 9, "MARKET VALUE INFORMATION OF

INVESTMENTS IN SECURITIES," which is included in the consolidated financial statements and presented on a consolidated basis.

### 14. INFORMATION ON DERIVATIVES

The Company uses derivative financial instruments, which comprise principally foreign forward exchange contracts and interest rate and currency swap agreements, to reduce its exposure to market risks from fluctuations in foreign currency exchange and interest rates. The Company does not hold or issue financial instruments for trading purposes.

Although the Company may be exposed to losses in the event of nonperformance by counterparties or interest and currency fluctuations, it does not anticipate significant losses from the arrangements described above.

As at 31st March, 1999, foreign forward exchange contracts were insignificant and interest rate and currency swap contracts outstanding at the year-end were as follows:

#### (1) Foreign Forward Exchange Contracts

|                                  | Millions of yen    |            |                       |
|----------------------------------|--------------------|------------|-----------------------|
|                                  | 1999               |            |                       |
|                                  | Notional principal | Fair value | Valuation gain (loss) |
| To buy U.S. dollars              | ¥ 29               | ¥ 30       | ¥ 1                   |
| Currency swap                    |                    |            |                       |
| Receiving dollars and paying yen | 15,000             | 1,150      | 1,150                 |
|                                  | ¥15,029            | ¥1,180     | ¥1,151                |

## (2) Interest Rate Swap

|                                                 | Millions of yen    |            |                       |
|-------------------------------------------------|--------------------|------------|-----------------------|
|                                                 | 1999               |            |                       |
|                                                 | Notional principal | Fair value | Valuation gain (loss) |
| Receiving floating rates and paying fixed rates | ¥12,700            | ¥(342)     | ¥(342)                |

Due to the change in Japanese regulations, information on derivatives is disclosed in Note 10, "INFORMATION ON

DERIVATIVES," which is included in the consolidated financial statements and presented on a consolidated basis.

## 15. SUBSEQUENT EVENTS

### (1) Appropriations of Retained Earnings

Appropriations of retained earnings in respect of the year ended 31st March, 2000, which was proposed by the Board of

Directors and approved at the shareholders' meeting held on 27th June, 2000, were as follows:

|                                                                                | Millions of yen | Thousands of U.S. dollars |
|--------------------------------------------------------------------------------|-----------------|---------------------------|
| Retained earnings:                                                             |                 |                           |
| Balance at 31st March, 2000                                                    | ¥ 8,096         | \$76,377                  |
| Reversal of special tax purpose reserve into retained earnings                 | 2,121           | 20,009                    |
| Appropriations:                                                                |                 |                           |
| Cash dividends (¥500 per share)                                                | (1,403)         | (13,236)                  |
| Transfer to legal reserve                                                      | (151)           | (1,424)                   |
| Bonuses to directors and statutory auditors                                    | (110)           | (1,038)                   |
| Transfer to special tax purpose reserve program                                | (580)           | (5,472)                   |
| Transfer to special tax purpose reserve for specified communications equipment | (209)           | (1,971)                   |
| Transfer to general reserve                                                    | (4,000)         | (37,736)                  |
|                                                                                | (6,453)         | (60,877)                  |
| Balance to be carried forward to the next year                                 | ¥ 3,764         | \$35,509                  |

### (2) Issued Bonds

On June 21, 2000, the Company issued 1.88% yen bonds due June 21, 2010, in the principal amount of ¥30,000 million at

the issue price of ¥99.93 per par value of ¥100, based on a resolution made by the Board of Directors at the meeting held on 22nd May, 2000.

# Report of Independent Certified Public Accountants on the Non-Consolidated Financial Statements

ChuoAoyama Audit Corporation

PRICEWATERHOUSECOOPERS 

Kasumigaseki Bldg. 32nd Floor  
3-2-5, Kasumigaseki, Chiyoda-ku,  
Tokyo 100-6088, Japan

**To: The Board of Directors of  
NTT DATA CORPORATION**

We have audited the accompanying non-consolidated balance sheets of NTT DATA CORPORATION as at 31st March, 1999 and 2000, and the related non-consolidated statements of operations and shareholders' equity for the years ended 31st March, 1998, 1999 and 2000, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the non-consolidated financial position of NTT DATA CORPORATION as at 31st March, 1999 and 2000, and the non-consolidated results of its operations for the years ended 31st March, 1998, 1999 and 2000, in conformity with accounting principles and practices generally accepted in Japan (see Note 1 (1)) applied on a consistent basis, except for the changes, with which we concur, in accounting for allocation of expenses related to company houses as described in detail in Note 1 (4), "Change of Accounting Policy," and provision for retirement benefits as described in detail in Note 2 (8), "Reserve for Employees Retirement Benefits," of the Notes to the Non-consolidated Financial Statements.

As described in Note 2, "Summary of Significant Accounting Policies," and Note 12, "Deferred Tax Assets," of the Notes to the Non-Consolidated Financial Statements, effective for the year ended 31st March, 2000, NTT DATA CORPORATION has adopted new Japanese accounting standards with respect to accounting for research and development expenses and accounting for deferred income taxes.

The amounts expressed in U.S. dollars, provided solely for the convenience of the readers, have been translated on the basis set forth in Note 3.



ChuoAoyama Audit Corporation

Tokyo, Japan  
27th June, 2000

## Directors and Auditors

(As of 27th June, 2000)

|                                                                                                   |                                                                           |                                                                                                                                        |                                                                                  |
|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| <b>Chairman of the Board</b><br>Tomeo Kambayashi*                                                 | <b>Executive Vice Presidents</b><br>Noboru Hagiwara<br>Tomokazu Hamaguchi | <b>Senior Vice Presidents</b><br>Toshihiko Yamamori<br>Takeo Kojima<br>Katsumi Haga<br>Hiroki Arakawa<br>Masayoshi Horikoshi           | <b>Standing Statutory Auditors</b><br>Hiromi Kanba<br>Koji Toda<br>Hiroshi Hongo |
| <b>President and Chief Executive Officer</b><br>Toshiharu Aoki*                                   | Masayoshi Isoi<br>Yuji Imai<br>Kiyoshi Nakaki<br>Naoshi Nakamura          | Yoshitaka Makitani<br>Noboru Hirata<br>Toru Yamashita<br>Shunichi Kominami<br>Noritaka Uji<br>Kenichi Abe<br>Yuji Inoue<br>Kanji Koide | <b>Statutory Auditor</b><br>Kouichi Tanaka                                       |
| <b>Senior Executive Vice Presidents</b><br>Teruyoshi Kawai*<br>Shigetoshi Takaki*<br>Makoto Sato* |                                                                           |                                                                                                                                        |                                                                                  |

\*Representative Director

## Major Subsidiaries and Affiliates

As of 31st March, 2000, the Company had 44 subsidiaries and 14 affiliates.

The Company prepared, for the first time, consolidated financial statements as at and for the year ended 31st March, 1995, in which the financial statements of the Company and nine major subsidiaries were consolidated. One affiliate was accounted for by the equity method.

The following table provides information relating to the Company's consolidated subsidiaries and principal affiliate, all of which are engaged in business in Japan, as of 31st March, 2000.

| Name                                                     | Issued Share Capital<br>as at 31st March, 2000<br>(millions of yen) | Percentage Held<br>(directly or indirectly) | Principal Business |
|----------------------------------------------------------|---------------------------------------------------------------------|---------------------------------------------|--------------------|
| <b>Consolidated Subsidiaries:</b>                        |                                                                     |                                             |                    |
| NTT System Technologies Inc.                             | 100                                                                 | 75.0                                        | Systems planning   |
| NTT System Service Corporation                           | 70                                                                  | 65.0                                        | Systems planning   |
| FUKUSHIMA NTT DATA COMMUNICATIONS<br>SYSTEMS CORPORATION | 100                                                                 | 53.0                                        | Systems sales      |
| TOKYO NTT DATA COMMUNICATIONS<br>SYSTEMS CORPORATION     | 800                                                                 | 75.0                                        | Systems sales      |
| NAGANO NTT DATA COMMUNICATIONS<br>SYSTEMS CORPORATION    | 100                                                                 | 52.0                                        | Systems sales      |
| TOKAI NTT DATA COMMUNICATIONS<br>SYSTEMS CORPORATION     | 300                                                                 | 59.0                                        | Systems sales      |
| KANSAI NTT DATA COMMUNICATIONS<br>SYSTEMS CORPORATION    | 400                                                                 | 56.5                                        | Systems sales      |
| CHUGOKU NTT DATA COMMUNICATIONS<br>SYSTEMS CORPORATION   | 150                                                                 | 59.3                                        | Systems sales      |
| KYUSHU NTT DATA COMMUNICATIONS<br>SYSTEMS CORPORATION    | 200                                                                 | 99.8                                        | Systems sales      |
| <b>Affiliate:</b>                                        |                                                                     |                                             |                    |
| Japan Network System Corporation                         | 1,375                                                               | 29.1                                        | Systems sales      |

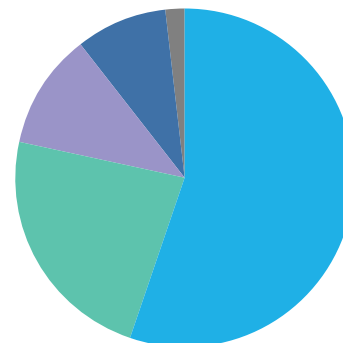
## Investor Information

The ten largest shareholders of the Company appearing on the Company's register of shareholders as of 31st March, 2000 were as follows:

| Name                                                            | Number of Shares Held | Percentage of Total Shares in Issue |
|-----------------------------------------------------------------|-----------------------|-------------------------------------|
| Nippon Telegraph and Telephone Corporation                      | 1,520,010             | 54.18%                              |
| The Mitsubishi Trust and Banking Corporation, Trust Account     | 69,784                | 2.48                                |
| The Sumitomo Trust & Banking Co., Limited, Trust Account        | 64,325                | 2.29                                |
| The Toyo Trust and Banking Company, Limited, Trust Account (A)  | 40,904                | 1.45                                |
| The Chuo Trust & Banking Co., Ltd., Trust Account               | 34,272                | 1.22                                |
| The Norinchukin Trust & Banking Co., Ltd.                       | 29,856                | 1.06                                |
| State Street Bank and Trust Company                             | 23,678                | 0.84                                |
| UBS AG London Asia Equities                                     | 23,308                | 0.83                                |
| Nippon Life Insurance Company                                   | 22,796                | 0.81                                |
| Nippon Life Insurance Company (Special Account of Pension Fund) | 19,771                | 0.70                                |
| <b>Total</b>                                                    | <b>1,848,704</b>      | <b>65.90%</b>                       |

### Distribution of Ownership among Shareholders

(On a number of shares basis)



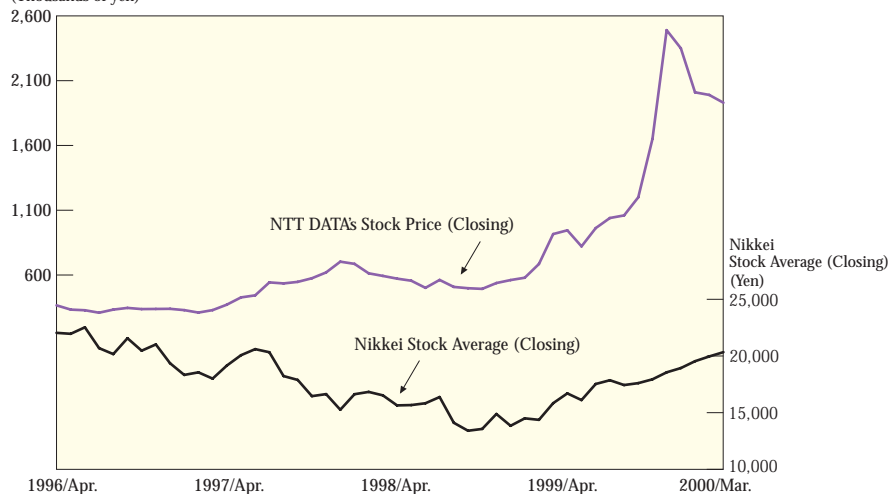
|                                 |        |
|---------------------------------|--------|
| Japanese financial institutions | 23.17% |
| Foreign institutions and others | 11.05% |
| Japanese individuals and others | 8.72%  |
| Japanese securities companies   | 1.83%  |
| Other Japanese corporations     | 55.23% |

### Number of Shares Issued and Number of Shareholders

|                                             |            |
|---------------------------------------------|------------|
| (1) Total Number of Authorized Shares       | 11,220,000 |
| (2) Number of Shares Issued and Outstanding | 2,805,000  |
| (3) Number of Shareholders                  | 95,780     |

### Stock Price Chart

NTT DATA's Stock Price (Closing)  
(Thousands of yen)



Notes:

- (1) The Nikkei Stock Average is the average stock price of 225 companies listed on the First Section of the Tokyo Stock Exchange.
- (2) The Company's stock price has been adjusted to the current par value of ¥5,000 per share.

# Corporate Data

## Head Office:

Toyosu Center Bldg., 3-3, Toyosu 3-chome,  
Koto-ku, Tokyo 135-6033, Japan  
Telephone: +81-3-5546-8202

## Date of Establishment:

23rd May, 1988

## Common Stock:

¥142,520 million

## Account Settlement Date:

31st March

## Independent Auditors:

ChuoAoyama Audit Corporation

## Brief History

|                  |                                                                                                                                                                                                                 |
|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1967 Oct.</b> | The Data Communications Bureau, which was the predecessor of the Company, was established within Nippon Telegraph and Telephone Public Corporation as an internal bureau.                                       |
| <b>1988 May</b>  | The Company was incorporated as a joint stock company under the laws of Japan for an indefinite duration and as a wholly owned subsidiary of Nippon Telegraph and Telephone Corporation (NTT).                  |
| <b>July</b>      | The operations of the Data Communications Sector of NTT were transferred to the Company.                                                                                                                        |
| <b>1993 Nov.</b> | The Company became the first company in the Japanese information services industry to receive the prestigious Deming Prize, which is given to the company with the best record in research and quality control. |
| <b>1995 Apr.</b> | The Company conducted a public offering of 20,000 new shares, each share having a par value of ¥50,000. The outstanding shares were listed on the Second Section of the Tokyo Stock Exchange (TSE).             |
| <b>1996 Feb.</b> | The Company conducted a global offering of 27,000 new shares in Japan, in conjunction with an offering of 6,000 new shares outside Japan, each share having a par value of ¥50,000.                             |
| <b>June</b>      | The English version of the Company's name was changed from NTT DATA Communications Systems Corporation to NTT DATA CORPORATION.                                                                                 |
| <b>Sept.</b>     | The outstanding shares were listed on the First Section of the TSE.                                                                                                                                             |
| <b>1998 May</b>  | The Company conducted a global offering of 16,500 new shares in Japan, in conjunction with an offering of 11,000 new shares outside Japan, each share having a par value of ¥50,000.                            |
| <b>Aug.</b>      | A stock split resulted in a change in par value whereby each ¥50,000 par value share was divided into ten ¥5,000 par value shares.                                                                              |

## Outline of Personnel (Non-consolidated basis) (As of 31st March, 2000)

| Category               | Number       | Average Age | Average Length of Service (years) |
|------------------------|--------------|-------------|-----------------------------------|
| <b>Total (or Avg.)</b> | <b>9,307</b> | <b>39.0</b> | <b>17.7</b>                       |

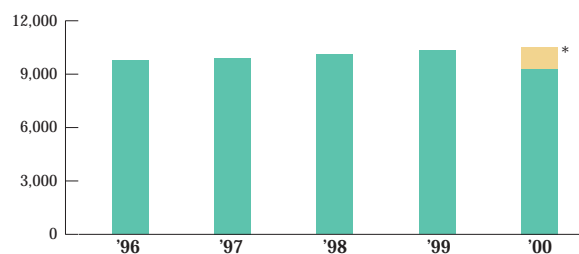
Note 1: Until fiscal 1999, numbers of personnel have included NTT DATA employees seconded from NTT DATA to other companies, and not employees of other companies seconded to NTT DATA. To gain a clearer understanding of the employment situation at NTT DATA, it has been decided that from the fiscal year under review employees seconded from NTT DATA to other companies will not be included, but that employees seconded to NTT DATA will be included in numbers of personnel.

In the period under review, there were 1,239 NTT DATA employees on secondment from NTT DATA to other companies and 46 employees on secondment to NTT DATA from other companies.

Note 2: In calculating the average length of service with regard to personnel transferred to NTT DATA from Nippon Telegraph and Telephone Corp., NTT Communications Corp., NTT East Corp., and NTT West Corp., the length of service these personnel had accumulated at their previous company has been added to their length of service at NTT DATA.

Note 3: Number of employees on a consolidated basis was 10,500 as of 31st March, 2000.

## Number of Employees at Fiscal Year-end



\*Number of employees according to previous method of calculation

## Overseas Offices

### U.K. Branch

Level 10, City Tower, 40 Basinghall Street,  
London EC2V 5DE, U.K.

Telephone: +44-20-7374-0040

Facsimile: +44-20-7374-2275

### Hong Kong Branch

19/F., CRE Building, 303 Hennessy Road,  
Wanchai, Hong Kong

Telephone: +852-2596-0503

Facsimile: +852-2596-0812

### Malaysia Branch

27th floor, UBN TOWER, No. 10,  
JALAN P. RAMLEE,

50250 Kuala Lumpur, Malaysia

Telephone: +60-3-206-4112

Facsimile: +60-3-206-4118

### Technical Center of California

4005 Miranda Avenue, Suite 150,  
Palo Alto, CA 94304, U.S.A.

Telephone: +1-650-687-0635

Facsimile: +1-650-687-0645

### NTT DATA International L.L.C

830 Third Avenue, 3rd Floor,  
New York, NY 10022, U.S.A.

Telephone: +1-212-355-3388

Facsimile: +1-212-355-0357

### NTT DATA U.S.A. L.L.C

95 Christopher Columbus Drive,  
Jersey City, NJ 07302, U.S.A.

Telephone: +1-201-413-5400

Facsimile: +1-201-413-5485

NTT DATA provides information on its own home page on the Internet.

Available through a WWW server, the URLs are:

(in Japanese) <http://www.nttdata.co.jp/>

(in English) [http://www.nttdata.co.jp/index\\_e.html](http://www.nttdata.co.jp/index_e.html)

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## NTT DATA CORPORATION

Toyosu Center Bldg., 3-3 Toyosu 3-chome,  
Koto-ku, Tokyo 135-6033, Japan  
Telephone: +81-3-5546-8202  
URL: <http://www.nttdata.co.jp/>

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